Half-Yearly Report
January–June
2011

Good Food, Good Life

Shareholder information

Stock exchange listing
Nestlé S.A. shares are listed on the SIX Swiss Exchange (ISIN code: CH0038863350). American Depositary Receipts (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
20 October 2011
2011 Nine months sales figures

16 February 2012
2011 Full Year Results

19 April 2012
145th Annual General Meeting, “Palais de Beaulieu”, Lausanne

Letter to shareholders

Fellow shareholders,

Nestlé continued to make good progress in a period characterised by political and economic instability, natural disasters, rising raw material prices and, yes, a strong Swiss franc. This has made for an extremely tough, volatile and competitive environment. But by leveraging our competitive advantages, investing behind our growth drivers and excelling in operational efficiency and effectiveness, we managed to drive growth not only in emerging markets but also in developed countries, especially in Europe. Furthermore we improved our trading operating margin while increasing investment in our brands. For the full year, we expect organic growth at the top end of the 5% to 6% range, combined with a margin increase in constant currencies.

Sales, profitability and financial position

The Group reported organic growth of 7.5% and a trading operating profit margin of 15.1%, up 20 basis points reported, up 40 basis points in constant currencies from that achieved by the continuing operations in the first half of 2010.

We continued to deliver growth both in emerging and developed markets, with organic growth of 5.7% in the Americas, 5.8% in Europe and 13.3% in Asia, Oceania and Africa. This performance reflects strong alignment and investment in our strategic growth priorities and brands to support our fast-flowing innovation pipeline. We also continued to step up our investment in R&D, factories and capabilities to support our growth in both emerging and developed markets.

First-half results

As announced in February 2011, Nestlé has made certain changes in presentation for Revenue and Operating Profit, as from January 2011, which have no impact on net profit and earnings per share. The 2010 figures have been restated for all the changes as a comparable basis. Following the disposal of Alcon in August 2010, the 2010 comparatives are reported on a continuing basis, which excludes Alcon, except for net profit and earnings per share figures, which include the contribution from Alcon. This is reflected in the analysis below.

In the first half of 2011, the Nestlé Group's organic growth was 7.5%, including real internal growth of 4.8%. Pricing increased in the second quarter to 3.8% compared to 1.5% in the first quarter, resulting in 2.7% pricing for the half year. There was a decrease in Group sales of 12.9% to CHF 41 billion, due to an impact of 13.8% from foreign exchange and of 6.6% from divestitures, net of acquisitions.

The Group's trading operating profit margin increased by 20 basis points and by 40 basis points in constant currencies. The cost of goods sold was higher by 180 basis points. The increase in input costs was partially offset by Nestlé Continuous Excellence savings, innovation, growth, sales mix and pricing. Distribution costs increased by 10 basis points, as sales mix and savings compensated much of the higher oil-related costs compared to the first half of 2010. Total marketing costs, including the cost of the sales and marketing organisations, were down by 20 basis points. More specifically, the consumer facing marketing spend increased by 6.2% in constant currencies; this was on top of a 14% increase in the first half of 2010. Administrative costs were down by 150 basis points. This demonstrates a rigorous approach to efficiency and shows the benefit of rolling out Nestlé Continuous Excellence, enabled by GLOBE, to areas beyond operations, and continues the trend we experienced last year. Nestlé Continuous Excellence savings are in line with our target of at least CHF 1.5 billion for the full year. The net other trading income and expenses improved by 40 basis points, resulting mainly from lower restructuring costs in the half year.

The underlying earnings per share (EPS) rose 5.2% in constant currencies. The reported EPS were CHF 1.46 compared with CHF 1.60 last year. Net profit was CHF 4.7 billion.

The Group's operating cash flow was CHF 1.7 billion. This number is impacted by the sale of Alcon, foreign exchange and higher commodity costs.

Business review

Zone Americas: Sales of CHF 12.8 billion; 5.6% organic growth; 1.1% real internal growth; trading operating profit margin 17.3%, –10 basis points.

In North America, where consumer confidence is subdued, we continued to grow our business. The frozen business saw gains in pizza, in the US for *DiGiorno* and in Canada for *Delissio*. *Stouffer's* also gained market share, and *Lean Cuisine* picked up momentum in recent months through launches such as *Market Creations* and by increasing its presence in snacking. Necessary pricing in ice cream impacted volumes for *Dreyer's*, although *Häagen Dazs* proved more resilient and *Nestlé Drumstick* continued to grow well. *Skinny Cow* was launched into the chocolate category. Both *Nescafé* in soluble coffee and *Coffee-Mate* in non-dairy creamers performed well. The launch of *Coffee-Mate Natural Bliss* was very well received. The petcare business gained market share in a weak category.

Latin America had a strong first half. Brazil achieved high single-digit growth while the rest of the markets or regions were double-digit. Highlights included *Nescafé*, powdered beverages such as *Nescau* and *Nesquik*, petcare with products such as *Dog Chow* and *Cat Chow*, culinary, chocolate, dairy and biscuits as well as Popularly Positioned Products (PPPs) in many categories.

The Zone's trading operating profit performance reflects the impact of severe cost pressure, compensated by necessary pricing action and efficiencies. The level of marketing spend was higher than in the first half of last year.

Zone Europe: Sales of CHF 7.5 billion; 4.1% organic growth; 2.7% real internal growth; trading operating profit margin 16.4%, +200 basis points.

In Western Europe there were strong performances in France, Italy, Benelux, the Nordic region and Switzerland, while Greece and the Iberian region managed to achieve positive growth despite severe economic conditions. Key innovations such as *Maggi Juicy Roasting*, *Nescafé Dolce Gusto* and *Felix* were strong contributors to the performance of their categories.

In Eastern Europe there was double-digit growth in the Ukraine and the Adriatic region. Russia's growth continued to be subdued, particularly in the confectionery category, our largest in the country.

In general, there was a strong, broad-based performance across the Zone's markets and categories in what remains a challenging environment, resulting in market share gains in the great majority of them. Ice cream was strong, with some good innovation in impulse-driven products; *Maggi* culinary products, the *Herta* chilled range and *Buitoni* and *Wagner* frozen pizzas all contributed well, while *Nescafé* and petcare were accretive to the Zone's growth. Popularly Positioned Products (PPPs) grew high single-digit, with good growth in both Eastern and Western Europe.

The Zone's trading operating profit benefited from the robust underlying performance, encompassing volume growth, pricing and savings, as well as lower restructuring and pension costs.

Zone Asia, Oceania and Africa: Sales of CHF 7.5 billion; 11.7% organic growth; 8.8% real internal growth; trading operating profit margin 19.5%, +50 basis points.

The start of the trading period was one of extreme challenges, with natural disasters and civil unrest in a number of countries, the consequences of which continue to affect the region. In this context, the Zone produced an extremely strong performance with double-digit growth, gaining market share in the majority of categories.

Growth was high across the emerging markets, being double-digit in Asia, Africa and the Middle East, with particular highlights in China, South Asia, Pakistan, North-East and South Africa, Indonesia and the Indochina region. A key driver is the continued roll-out of our Popularly Positioned Product (PPP) business model, including deeper distribution into more rural areas as we target an additional one million retail outlets by the end of 2012. Popularly Positioned Products (PPPs) were accretive to the Zone's growth.

Growth continued to be positive in our Oceania and Japan region. There were good performances in soluble coffee, confectionery and ready-to-drink beverages in particular.

The big categories in the Zone – ambient dairy, ambient culinary and soluble coffee – were all double-digit. *Maggi* saw strong growth across its range, including noodles in India and seasonings in Africa. *Nescafé* grew in all segments, from Popularly Positioned Products (PPPs) and 3-in-1s to its premium range and single-serve systems. The *Munch* and *Shark* brands performed well in chocolate, while the ice cream category benefited from good innovations in South East Asia and China.

The Zone's trading operating profit benefited from the strong volume growth, savings in manufacturing and administration, efficiencies in brand communication, as well as pricing.

Nestlé Waters: Sales of CHF 3.4 billion; 5.8% organic growth; 4.8% real internal growth; trading operating profit margin 8.6%, –140 basis points.

Nestlé Waters achieved growth in all three Zones. Market shares were generally positive, with Europe being a highlight. The international brands, *S. Pellegrino*, *Vittel*, *Acqua Panna*, *Contrex* and *Perrier*, performed particularly well.

In North America the competitive environment is tough, and increased pricing is impacting volume for the regional brands such as *Poland Spring* and *Arrowhead*, as well as for *Nestlé Pure Life*. However, the US was a key contributor to the good performance of the international brands.

Growth continued to be dynamic in Europe. France enjoyed double-digit growth, Germany and Eastern Europe achieved good growth, while Italy and the UK were also positive. Market shares were held in Italy and up in the UK, France and Germany.

Nestlé Waters continued to roll out in emerging markets, with double-digit growth in Brazil and Mexico, as well as Turkey, Pakistan and Vietnam, amongst others.

The Nestlé Waters' trading operating profit margin fell due to the sharp increase in oil-related costs, both distribution and packaging, despite a high level of savings, leverage from growth, increased prices, further light-weighting of bottles and continuous increases in distribution efficiencies.

Nestlé Nutrition: Sales of CHF 3.7 billion; 8.8% organic growth; 6.5% real internal growth; trading operating profit margin 21.1%, –90 basis points.

Infant nutrition, which represents about 90% of the division's sales, achieved double-digit organic growth in the first half. There were strong performances from all areas, both by category and geography, resulting in market share gains in key markets and on a global basis. All three Zones grew, with highlights including France and Russia, the Greater China and South Asia regions, the US and Mexico. Amongst the brands, *Cerelac*, *Good Start* and *Lactogen* achieved double-digit growth. Switzerland saw the launch of Nestlé's newest innovation, *BabyNes*, the first comprehensive nutrition system for babies.

Performance nutrition enjoyed a high level of growth in Oceania and Europe, with successful innovations such as *PowerBar* fruit gels. A high level of promotions in North America also drove strong volume growth.

Jenny Craig had a tough first half in North America, due to the weak economic environment and a high level of competitive pressure. Its launch in France and the UK continues to make good progress, while the Oceania business is performing well.

Nestlé Nutrition's trading operating profit margin was impacted by high raw material costs, reduced sales in weight management and the phasing of investment behind new product launches. The benefit of pricing taken in the first half will be more evident in the second half.

Other: Sales of CHF 6.2 billion; 11.5% organic growth; 9.7% real internal growth; trading operating profit margin 17.5%, –140 basis points.

Nestlé Professional gained momentum in both beverages and food. It delivered high single-digit organic growth, with double-digit growth in Latin America and Zone Asia, Oceania and Africa. Emerging markets represent about a third of sales, and highlights include the Greater China region and India, both growing around 20%. The beverages business as a whole grew double-digit and performed well in North America despite the tough environment. The new premium and super-premium *Nescafé* machines are making good inroads following their launch in 2010, and the geographic roll-out continues. The food business reported mid single-digit growth, with *Maggi* culinary and *Nestlé* milk products, *Davigel* and *Erlenbacher* as drivers. The trading operating profit margin was held at last year's level despite increased cost pressures.

Nespresso achieved double-digit organic growth, having continued to perform at a high level around the world, including in its biggest European markets and the US, despite intensified competition. The global roll-out of boutiques continued with new openings in St. Petersburg, Stockholm and Barcelona, and the number of boutiques is expected to exceed 250 by the end of the year. Nespresso's marketing spend was first-half weighted due to the successful global launch of the *Pixie* machine as well as an intense programme of boutique openings.

Nestlé Health Science's healthcare nutrition business achieved high single-digit growth. Nestlé Health Science acquired the US-based Prometheus Laboratories Inc., specialised in gastrointestinal diagnostics, and an interest in the New Zealand-based Vital Foods. It continued to invest in its new structures, including the Nestlé Institute of Health Sciences.

The Food and Beverages joint ventures, Cereal Partners Worldwide (CPW) and Beverage Partners Worldwide (BPW), and the Pharmaceutical joint ventures, Galderma and Laboratoires innéov, all achieved a good level of growth.

The "Other" trading operating profit margin was mainly impacted by the first-half weighting of Nespresso's marketing investments, and increased costs at Nestlé Health Science.

Financial flexibility

We recognise significant opportunities to advance our strategic growth agenda both organically and through bolt-on acquisitions. In 2011, we have already committed to significant levels of capital expenditure weighted to the high-growth emerging markets and we have announced several strategic bolt-on acquisitions in different parts of the world. In view of these significant financial commitments, and taking into consideration the difficult economic environment which has prevailed for some time now, we will continue to maintain an appropriate level of financial flexibility to pursue with confidence our strategic growth agenda. Consequently, after completing CHF 35 billion in share buy-backs since 2007, the Board of Directors has made a decision not to launch a new programme at this time.

Outlook

As we look forward to the second half of 2011, we expect continued challenging conditions including political and economic instability, volatile raw material prices and subdued consumer confidence in the developed world. But our momentum is strong, our efficiency drive continues and we expect our pricing to have a fuller impact in the second half of the year. We are therefore confident of achieving organic growth at the top end of the 5% to 6% range, combined with a margin increase 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 2011 Total	January–June 2010 Continuing operations	January–June 2010 Total [a]
Sales [b]		41 004	43 174	47 089
Trading operating profit [b]		6 210	6 444	8 123
as % of sales		*15.1%*	*14.9%*	*17.3%*
Profit for the period attributable to shareholders of the parent (Net profit)		4 703	4 713	5 450
as % of sales		*11.5%*	*10.9%*	*11.6%*
Equity attributable to shareholders of the parent, end June		51 764		42 012
Market capitalisation, end June		166 388		176 410
Operating cash flow		1 669	4 360	5 769
Capital expenditure		1 409	1 255	1 409
as % of sales		*3.4%*	*2.9%*	*3.0%*
Free cash flow [c]		263	2 716	3 252
Net financial debt [d]		14 508		29 650
Per share				
Basic earnings per share	CHF	1.46	1.38	1.60
Diluted earnings per share	CHF	1.46	1.37	1.59
Equity attributable to shareholders of the parent, end June	CHF	16.07		12.30

(a) June 2010 includes Alcon's discontinued operations.
(b) 2010 restated following the changes in the Income Statement described in Note 1 – Accounting Policies.
(c) Operating cash flow less capital expenditure, disposal of tangible assets, purchase and disposal of intangible assets, movements with associates as well as with non-controlling interests.
(d) Alcon net debt position not included in 2010, as part of assets held for sale.

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 2011 Total	January–June 2010 Continuing operations	January–June 2010 Total [a]
Sales [b]		45 351	39 783	43 390
Trading operating profit [b]		6 869	5 938	7 485
Profit for the period attributable to shareholders of the parent (Net profit)		5 201	4 343	5 022
Equity attributable to shareholders of the parent, end June		62 194		38 794
Market capitalisation, end June		199 913		162 898
Per share				
Basic earnings per share	USD	1.61	1.27	1.47
Equity attributable to shareholders of the parent, end June	USD	19.31		11.36

(a) June 2010 includes Alcon's discontinued operations.
(b) 2010 restated following the changes in the Income Statement described in Note 1 – Accounting Policies.

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 2011 Total	January–June 2010 Continuing operations	January–June 2010 Total (a)
Sales (b)		32 309	30 070	32 797
Trading operating profit (b)		4 893	4 489	5 658
Profit for the period attributable to shareholders of the parent (Net profit)		3 705	3 283	3 796
Equity attributable to shareholders of the parent, end June		42 876		31 737
Market capitalisation, end June		137 819		133 266
Per share				
Basic earnings per share	EUR	1.15	0.96	1.11
Equity attributable to shareholders of the parent, end June	EUR	13.31		9.29

(a) June 2010 includes Alcon's discontinued operations.
(b) 2010 restated following the changes in the Income Statement described in Note 1 – Accounting Policies.

Principal exchange rates

CHF per		June 2011	December 2010	June 2010	January–June 2011	January–June 2010
			Ending rates		Weighted average rates	
1 US Dollar	USD	0.832	0.938	1.083	0.904	1.085
1 Euro	EUR	1.207	1.253	1.324	1.269	1.436
1 Pound Sterling	GBP	1.339	1.454	1.630	1.463	1.650
100 Brazilian Reais	BRL	52.925	56.291	59.924	55.358	60.339
100 Japanese Yen	JPY	1.035	1.153	1.222	1.105	1.188
100 Mexican Pesos	MXN	7.087	7.568	8.435	7.617	8.553
1 Canadian Dollar	CAD	0.860	0.938	1.031	0.921	1.056
1 Australian Dollar	AUD	0.894	0.955	0.925	0.934	0.968
100 Philippine Pesos	PHP	1.919	2.146	2.332	2.081	2.368
100 Chinese Yuan Renminbi	CNY	12.872	14.227	15.951	13.852	15.861

Consolidated income statement for the period ended 30 June 2011

In millions of CHF	Notes	January–June 2011 Total	January–June 2010 [a] Continuing operations	Discontinued operations [b]	Total
Sales	3	**41 004**	**43 174**	**3 915**	**47 089**
Other revenue		68	58	–	58
Cost of goods sold		(21 352)	(21 725)	(816)	(22 541)
Distribution expenses		(3 804)	(3 962)	(93)	(4 055)
Marketing and administration expenses		(8 961)	(10 171)	(970)	(11 141)
Research and development costs		(671)	(669)	(357)	(1 026)
Other trading income	5	22	41	–	41
Other trading expenses	5	(96)	(302)	–	(302)
Trading operating profit	3	**6 210**	**6 444**	**1 679**	**8 123**
Other operating income		95	43	63	106
Other operating expenses		(142)	(83)	(31)	(114)
Operating profit		**6 163**	**6 404**	**1 711**	**8 115**
Financial income		42	34	16	50
Financial expense		(368)	(453)	(12)	(465)
Profit before taxes and associates		**5 837**	**5 985**	**1 715**	**7 700**
Taxes		(1 504)	(1 702)	(296)	(1 998)
Share of results of associates	6	539	599	–	599
Profit for the period		**4 872**	**4 882**	**1 419**	**6 301**
of which attributable to non-controlling interests		169	169	682	851
of which attributable to shareholders of the parent (Net profit)		4 703	4 713	737	5 450
As percentages of sales					
Trading operating profit		15.1%	14.9%	42.9%	17.3%
Profit for the period attributable to shareholders of the parent (Net profit)		11.5%			11.6%
Earnings per share (in CHF)					
Basic earnings per share		1.46	1.38	0.22	1.60
Diluted earnings per share		1.46	1.37	0.22	1.59

(a) 2010 restated following the changes in the Income Statement described in Note 1 – Accounting Policies.
(b) Relates to Alcon.

Consolidated statement of comprehensive income for the period ended 30 June 2011

In millions of CHF	January–June 2011	January–June 2010
Profit for the period recognised in the income statement	**4 872**	**6 301**
Currency retranslations	(4 848)	505
Fair value adjustments on available-for-sale financial instruments		
– Unrealised results	(80)	114
– Recognition of realised results in the income statement	4	5
Fair value adjustments on cash flow hedges		
– Recognised in hedging reserve	(21)	(244)
– Removed from hedging reserve	2	32
Actuarial gains/(losses) on defined benefit schemes	(161)	(1 920)
Share of other comprehensive income of associates	265	73
Taxes	29	503
Other comprehensive income for the period	**(4 810)**	**(932)**
Total comprehensive income for the period	**62**	**5 369**
of which attributable to non-controlling interests	117	921
of which attributable to shareholders of the parent	(55)	4 448

Consolidated balance sheet as at 30 June 2011

In millions of CHF	30 June 2011	31 December 2010	30 June 2010
Assets			
Current assets			
Cash and cash equivalents	2 833	8 057	2 451
Short term investments	4 129	8 189	2 690
Inventories	8 885	7 925	8 748
Trade and other receivables	11 946	12 083	12 499
Prepayments and accrued income	1 002	748	925
Derivative assets	1 068	1 011	1 417
Current income tax assets	964	956	925
Assets held for sale [(a)]	22	28	11 787
Total current assets	**30 849**	**38 997**	**41 442**
Non-current assets			
Property, plant and equipment	20 114	21 438	21 774
Goodwill	24 753	27 031	30 171
Intangible assets	7 328	7 728	8 430
Investments in associates	7 976	7 914	8 046
Financial assets	7 679	6 366	4 349
Employee benefits assets	125	166	183
Current income tax assets	61	90	181
Deferred tax assets	1 805	1 911	2 724
Total non-current assets	**69 841**	**72 644**	**75 858**
Total assets	**100 690**	**111 641**	**117 300**

(a) June 2010 relates mainly to Alcon's discontinued operations.

In millions of CHF	Notes	30 June 2011	31 December 2010	30 June 2010
Liabilities and equity				
Current liabilities				
Financial debt		14 905	12 617	26 810
Trade and other payables		11 137	12 592	12 955
Accruals and deferred income		2 433	2 798	2 788
Provisions		509	601	413
Derivative liabilities		677	456	704
Current income tax liabilities		1 195	1 079	1 358
Liabilities directly associated with assets held for sale [a]		–	3	2 856
Total current liabilities		**30 856**	**30 146**	**47 884**
Non-current liabilities				
Financial debt		6 565	7 483	7 981
Employee benefits liabilities		4 653	5 280	7 836
Provisions		3 332	3 510	3 577
Deferred tax liabilities		1 352	1 371	1 482
Other payables		1 460	1 253	1 495
Total non-current liabilities		**17 362**	**18 897**	**22 371**
Total liabilities		**48 218**	**49 043**	**70 255**
Equity				
Share capital	8	330	347	347
Treasury shares		(5 991)	(11 108)	(4 345)
Translation reserve		(20 588)	(15 794)	(10 753)
Retained earnings and other reserves		78 013	88 422	56 763
Total equity attributable to shareholders of the parent		**51 764**	**61 867**	**42 012**
Non-controlling interests		708	731	5 033
Total equity		**52 472**	**62 598**	**47 045**
Total liabilities and equity		**100 690**	**111 641**	**117 300**

(a) June 2010 relates mainly to Alcon's discontinued operations.

Consolidated cash flow statement for the period ended 30 June 2011

In millions of CHF	Notes	January–June 2011	January–June 2010
Operating activities			
Profit for the period		4 872	6 301
Non-cash items of income and expense	7	1 157	1 362
Decrease/(increase) in working capital		(3 284)	(2 111)
Variation of other operating assets and liabilities		(1 076)	217
Operating cash flow		**1 669**	**5 769**
of which discontinued operations [a]			1 409
Investing activities			
Capital expenditure		(1 409)	(1 409)
Expenditure on intangible assets		(131)	(276)
Sale of property, plant and equipment		30	58
Acquisition of businesses	2	(708)	(4 378)
Disposal of businesses	2	4	86
Cash flows with associates		413	335
Other investing cash flows		(2 020)	(552)
Cash flow from investing activities		**(3 821)**	**(6 136)**
of which discontinued operations [a]			(673)
Financing activities			
Dividend paid to shareholders of the parent	8	(5 939)	(5 443)
Purchase of treasury shares		(4 329)	(5 519)
Sale of treasury shares		380	128
Cash flows with non-controlling interests		(152)	(673)
Bonds issued	9	527	1 267
Bonds repaid	9	(1 689)	(1 068)
Inflows from other non-current financial liabilities		34	66
Outflows from other non-current financial liabilities		(51)	(168)
Inflows/(outflows) from current financial liabilities		4 310	10 927
Inflows/(outflows) from short-term investments		3 900	(142)
Cash flow from financing activities		**(3 009)**	**(625)**
of which discontinued operations [a]			(1 509)
Currency retranslations		(63)	103
Increase/(decrease) in cash and cash equivalents		**(5 224)**	**(889)**
Cash and cash equivalents at beginning of year		8 057	5 825
Cash and cash equivalents at end of period		**2 833**	**4 936**

(a) Relates to Alcon.

Consolidated statement of changes in equity for the period ended 30 June 2011

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 2009	365	(8 011)	(11 175)	67 736	48 915	4 716	53 631
Total comprehensive income			422	4 026	4 448	921	5 369
Dividend paid to shareholders of the parent				(5 443)	(5 443)		(5 443)
Dividends paid to non-controlling interests					–	(645)	(645)
Movement of treasury shares (net) [(a)]		(5 088)		(1 207)	(6 295)		(6 295)
Changes in non-controlling interests				(6)	(6)	27	21
Equity compensation plans		171		(63)	108	14	122
Adjustment for hyperinflation [(b)]				285	285		285
Reduction in share capital	(18)	8 583		(8 565)	–		–
Equity as at 30 June 2010	347	(4 345)	(10 753)	56 763	42 012	5 033	47 045
Equity as at 31 December 2010	**347**	**(11 108)**	**(15 794)**	**88 422**	**61 867**	**731**	**62 598**
Total comprehensive income			(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 (net) [(a)]		(3 872)		(435)	**(4 307)**		**(4 307)**
Changes in non-controlling interests				(1)	**(1)**	4	**3**
Equity compensation plans		163		(60)	**103**		**103**
Adjustment for hyperinflation [(b)]				96	**96**		**96**
Reduction in share capital	(17)	8 826		(8 809)	–		–
Equity as at 30 June 2011	**330**	**(5 991)**	**(20 588)**	**78 013**	**51 764**	**708**	**52 472**

(a) Movement reported under retained earnings mainly relates 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 2011. 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 2010.

The accounting conventions and accounting policies are the same as those applied in the Consolidated Financial Statements for the year ended 31 December 2010, except for the changes in presentation mentioned below.

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 2010.

Changes in presentation – Revenue

Certain allowances and discounts, granted to trade chains, customers, retailers and consumers for trade and consumer promotions, selling, distribution, advertising and other services, rendered to the Group were previously reported as expenses under marketing and administration expenses as well as distribution expenses on grounds that they are incurred to generate sales. These allowances and discounts, as from 1 January 2011, are disclosed as a deduction of sales in conformity with the practice generally admitted by consumer goods companies. The impact of this change for the six-month period ended 30 June 2010 is a reduction in distribution expenses of CHF 212 million as well as marketing and administration expenses of CHF 7985 million. Moreover, a separate line for other revenues such as license fees received from third parties has been added to the Income Statement, for an amount of CHF 58 million for this same period. The total impact is a reduction in sales of CHF 8255 million. 2010 comparatives have been restated accordingly.

Changes in presentation – Operating profit

Previously the Group Income Statement included EBIT (Earnings before Interest, Taxes, Restructuring and Impairments) and Profit before Interest and Taxes. As from 2011, the Income Statement displays a Trading Operating Profit that is after restructuring costs, impairment of all assets except goodwill, litigations and onerous contracts, result on disposal of property, plant and equipment and specific other income and expenses. This represents the new internal performance view that is also utilised in the segment reporting. Finally the line Profit before Interest and Taxes is renamed Operating Profit and is after impairment of goodwill, results on disposals of businesses, acquisition-related costs and other income and expenses that fall beyond the control of operating segments and relate to events such as natural disasters and expropriation of assets. 2010 comparatives have been restated accordingly.

Changes in presentation – Analyses by segment

The scope of the operating segments has been modified following on the changes in management responsibilities: HealthCare Nutrition, now managed by Nestlé Health Science, is reported under "Other". Moreover Pharma is also reported under "Other" as a result of the disposal of Alcon. Information by product has been modified accordingly. 2010 comparatives have been restated.

Changes in IFRSs that may affect the Group after 30 June 2011

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting period beginning on 1 January 2013. The Group will not early adopt 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.

IFRS 10 – Consolidated Financial Statements

This standard provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. It is not expected to have a material impact on the Group 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 and 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. It is not expected to have a material impact on the Group Financial Statements.

IFRS 13 – Fair Value Measurement

This standard applies when other IFRSs 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 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 interests costs on the defined benefit obligation with a single net interest component which is calculated by applying the discount rate to the net defined benefits asset or liability;
– past-service costs that will be recognised in the period of a plan amendment and unvested benefits that will no longer be spread over a future period until the benefits become vested.

The Group is currently assessing the impacts of these amendments.

Improvements and other amendments to IFRS/IAS

Several standards have been modified on miscellaneous points and are effective from 1 January 2013. 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 been affected by acquisitions and disposals. The principal business is Q-Med, acquired by Galderma. There were no other major acquisitions or disposals for this interim period.

2.2 Acquisitions

Cash outflows in the first six months of 2011 are related to several acquisitions of which the main one is Q-Med by Galderma. The Group's sales and profit for the period are not significantly impacted by those acquisitions. Cash outflows of the comparative period were impacted by the Kraft Foods' frozen pizza acquisition (cash outflow of CHF 3977 million) 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

2011 acquisition-related costs have been recognised under other operating expenses in the Income Statement for an amount of CHF 12 million (2010: CHF 13 million).

2.3 Disposals

Cash inflows recognised in the first six months of 2011 and 2010 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 18 April 2011, the Group announced that it has signed a partnership agreement taking a 60% stake in the Chinese food company Yinlu Foods Group, a significant marketer for ready-to-drink peanut milk and ready-to-eat canned rice porridge. On 11 July 2011, the Group announced that it has entered into a partnership agreement with the founding family of Hsu Fu Chi, a leading manufacturer and distributor of confectionery products in China, listed in Singapore. Under the proposed agreement, Nestlé intends to acquire 60% of Hsu Fu Chi from the founding family and from independent shareholders by way of a "scheme of arrangement".

Both transactions are subject to regulatory approval. The approval process is expected to last between three to twelve months. In addition, the completion of the Hsu Fu Chi transaction is subject to certain other conditions related to the "scheme of arrangement".

3. Analysis by segment

3.1 Operating segments

In millions of CHF

		Zone Europe	Zone Americas	Zone Asia, Oceania and Africa
January–June 2010 [(a)]	**Sales**	8 132	13 633	7 587
	Trading operating profit	1 169	2 374	1 438
	Impairment of goodwill	–	(2)	–
	Net other operating income/(expenses) excluding impairment of goodwill			
	Operating profit			
	Net financing cost			
	Profit before taxes and associates			
	Net other trading income/(expenses) included in Trading operating profit	(103)	(83)	(12)
	of which impairment of assets other than goodwill	*(25)*	*–*	*(1)*
	of which restructuring costs	*(50)*	*(19)*	*(6)*
January–June 2011	**Sales**	7 521	12 769	7 466
	Trading operating profit	1 234	2 215	1 454
	Impairment of goodwill	–	–	(5)
	Net other operating income/(expenses) excluding impairment of goodwill			
	Operating profit			
	Net financing cost			
	Profit before taxes and associates			
	Net other trading income/(expenses) included in Trading operating profit	(23)	(30)	(4)
	of which impairment of assets other than goodwill	*5*	*(14)*	*(2)*
	of which restructuring costs	*(11)*	*4*	*(2)*

(a) 2010 comparatives have been restated following the changes in the Income Statement described in Note 1 – Accounting Policies. Moreover, the scope of the operating segments has been reviewed to be aligned with the changes of management responsibility as of 1 January 2011. HealthCare Nutrition has been reclassified under “Other” as now managed as part of Nestlé Health Science. As a result of the disposal of Alcon, Pharma has been reclassified under “Other” as now managed together with the Food and Beverages Joint Ventures.
(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.

Nestlé Waters	Nestlé Nutrition	Other (b)	Unallocated items (c)	Total continuing operations	Pharma discontinued operations	Total
3 738	3 931	6 153		43 174	3 915	47 089
372	865	1 160	(934)	6 444	1 679	8 123
–	–	–	–	(2)	–	(2)
				(38)	32	(6)
				6 404	1 711	8 115
				(419)	4	(415)
				5 985	1 715	7 700
(26)	(18)	(15)	(4)	(261)	–	(261)
(4)	*(1)*	*(1)*	–	*(32)*	–	*(32)*
(9)	*(6)*	*(3)*	–	*(93)*	*(1)*	*(94)*
3 372	3 725	6 151		41 004		41 004
290	785	1 077	(845)	6 210		6 210
(2)	–	(2)	–	(9)		(9)
				(38)		(38)
				6 163		6 163
				(326)		(326)
				5 837		5 837
(4)	(4)	(13)	4	(74)		(74)
(1)	–	–	–	*(12)*		*(12)*
(3)	*(2)*	*(7)*	–	*(21)*		*(21)*

3.2 Products

In millions of CHF	Powdered and Liquid Beverages	Water	Milk products and Ice cream
January–June 2010 [a]			
Sales	8 901	3 742	8 516
Trading operating profit	2 182	373	1 117
Impairment of goodwill	–	–	–
Net other operating income/(expenses) excluding impairment of goodwill			
Operating profit			
Net financing cost			
Profit before taxes and associates			
Net other trading income/(expenses) included in Trading operating profit	(41)	(26)	(51)
of which impairment of assets other than goodwill	*(1)*	*(4)*	*(2)*
of which restructuring costs	*(13)*	*(9)*	*(23)*
January–June 2011			
Sales	**8 894**	**3 375**	**8 137**
Trading operating profit	**2 159**	**291**	**1 147**
Impairment of goodwill	(2)	(2)	–
Net other operating income/(expenses) excluding impairment of goodwill			
Operating profit			
Net financing cost			
Profit before taxes and associates			
Net other trading income/(expenses) included in Trading operating profit	**(15)**	**(4)**	**(26)**
of which impairment of assets other than goodwill	*–*	*(1)*	*(7)*
of which restructuring costs	*(5)*	*(3)*	*(4)*

(a) 2010 comparatives have been restated following the changes in the Income Statement described in Note 1 – Accounting Policies.
(b) Include Pharmaceutical products, previously disclosed separately.
(c) Mainly corporate expenses as well as research and development costs.

Nutrition and HealthCare (b)	Prepared dishes and cooking aids	Confectionery	PetCare	Unallocated items (c)	**Total continuing operations**	Pharma discontinued operations	**Total**
5 092	7 168	4 416	5 339		43 174	3 915	47 089
1 027	938	609	1 132	(934)	6 444	1 679	8 123
–	–	–	(2)	–	(2)	–	(2)
					(38)	32	(6)
					6 404	1 711	8 115
					(419)	4	(415)
					5 985	1 715	7 700
(23)	(49)	(49)	(18)	(4)	(261)	–	(261)
(2)	*(7)*	*(16)*	–	–	*(32)*	–	*(32)*
(7)	*(20)*	*(19)*	*(2)*	–	*(93)*	*(1)*	*(94)*
4 884	6 848	4 078	4 788		41 004		41 004
928	918	655	957	(845)	6 210		6 210
–	–	(5)	–	–	(9)		(9)
					(38)		(38)
					6 163		6 163
					(326)		(326)
					5 837		5 837
(10)	(10)	(15)	2	4	(74)		(74)
–	*(2)*	–	*(2)*	–	*(12)*		*(12)*
(6)	*(4)*	*(3)*	*4*	–	*(21)*		*(21)*

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 2011	January–June 2010
Profit on disposal of property, plant and equipment	2	24
Miscellaneous trading income	20	17
Other trading income	**22**	**41**
Loss on disposal of property, plant and equipment	(8)	(5)
Restructuring costs	(21)	(93)
Impairment of assets other than goodwill	(12)	(32)
Litigations [(a)] and onerous contracts	(20)	(124)
Miscellaneous trading expenses	(35)	(48)
Other trading expenses	**(96)**	**(302)**
Net other trading income/(expenses) of continuing operations	**(74)**	**(261)**
Net other trading income/(expenses) of discountinued operations [(b)]		–
Total net other trading income/(expenses)	**(74)**	**(261)**

(a) It relates mainly to numerous separate legal cases predominantly in Latin America (for example labour, civil and tax litigations).
(b) Relates to Alcon.

6. Share of results of associates

This item mainly includes our share of the estimated results of L'Oréal, after consideration of its own shares.

7. Non-cash items of income and expenses

In millions of CHF	January–June 2011	January–June 2010
Share of results of associates	(539)	(599)
Depreciation of property, plant and equipment	1 214	1 297
Impairment of property, plant and equipment	12	32
Impairment of goodwill	9	2
Amortisation of intangible assets	271	329
Net result on disposal of businesses	–	(22)
Net result on disposal of assets	(39)	9
Non-cash items in financial assets and liabilities	99	115
Deferred taxes	6	(413)
Taxes in other comprehensive income and equity	29	503
Equity compensation plans	82	109
Other	13	–
	1 157	**1 362**

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 15 April 2010 and 14 April 2011. In 2010, the share capital was reduced by 185 000 000 shares from CHF 365 million to CHF 347 million. In 2011, the share capital was further reduced by 165 000 000 shares from CHF 347 million to CHF 330 million.

At 30 June 2011, the share capital of Nestlé S.A. is composed of 3 300 000 000 of registered shares with a nominal value of CHF 0.10 each.

8.2 Dividend

The dividend related to 2010 was paid on 21 April 2011 in conformity with the decision taken at the Annual General Meeting on 14 April 2011. Shareholders approved the proposed dividend of CHF 1.85 per share, resulting in a total dividend of CHF 5939 million.

9. Bonds

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

In millions of CHF						January–June 2011
Issuer	Face value in millions	Coupon	Effective interest rates	Year of issue/ maturity	Comments	Carrying amount
New issues						
Nestlé Holdings, Inc., USA	AUD 275	5.50%	5.69%	2011–2016	(a)	248
	NOK 1000	3.38%	3.59%	2011–2016	(a)	155
	USD 115	2.00%	2.11%	2011–2016		103
Other						21
Total new issues						**527**
Repayments						
Nestlé Holdings, Inc., USA	USD 750	4.00%	3.87%	2008–2011	(a)	(678)
	AUD 600	7.25%	7.63%	2008–2011	(a)	(495)
	USD 500	4.75%	4.90%	2007–2011	(a)	(452)
	NOK 1000	5.00%	5.55%	2008–2011	(a)	(168)
Other					(b)	104
Total repayments						**(1 689)**

(a) Subject to an interest rate and/or currency swap that creates a liability at fixed or floating rates in the currency of the issuer.
(b) Net cash received by Nestlé Finance International Ltd., Luxembourg, for currency forward contracts hedging existing bonds.

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