# Half-Yearly Report

Nestlé

Good Food, Good Life

January–June 2009

www.nestle.com



In case of doubt or differences of interpretation, the English version shall prevail over the French and German text

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# Overview

Paul Bulcke, CEO of Nestlé: "With 3.5% organic growth and a 30 basis point EBIT margin improvement, Nestlé delivered a combination of growth and increased profitability in the first half of the year, and this in a very challenging business environment. The success of our efficiency initiatives enabled increased investment in consumer-facing marketing and R&D, which leads me to expect an acceleration in organic growth in the second half of 2009. Furthermore, Nestlé's healthy cash flow over the first half allowed us to return about CHF 6.5 billion in cash to shareholders. The Group remains committed to its strategic direction focused on sustainable, long-term profitable growth and is well placed to capture opportunities as economic conditions improve."

## Group sales, profitability and financial position

In the first six months of 2009, Nestlé achieved organic growth of 3.5%, including 0.5% real internal growth. Divestitures, net of acquisitions, reduced Group sales by 0.7%, whilst the currency effect resulted in a 4.3% reduction due to the strength of the Swiss franc compared to many other currencies. These factors resulted in a decline in Nestlé Group sales of 1.5%, to CHF 52.3 billion. Food and Beverages' sales reached CHF 48.3 billion, with organic growth of 3.4%, including real internal growth of 0.1%. This builds on the strong first half of 2008 when Nestlé achieved organic growth of 8.9%.

The Group's EBIT grew to CHF 7.4 billion, resulting in an increased EBIT margin of 14.1% of sales. This represents a 30 basis points improvement, both in constant and reporting currencies. Food and Beverages' EBIT margin was up 20 basis points in constant currencies and 10 basis points reported, to 12.4%.

The acceleration of Nestlé Continuous Excellence, the Group's efficiency programme, contributed to a 30 basis points decline in both the cost of goods sold and distribution costs. The Group's commitment to brand building, including innovation and renovation, is reflected in the 10 basis points increase in consumer-facing marketing and in the 20 basis points increase in Research and Development.

Nestlé's net profit margin reached 9.7% of sales. Underlying earnings per share grew by 3.5% to CHF 1.46, up 8.5% in constant currencies.

On 30 June 2009, the Group's operating cash flow was CHF 6.4 billion, significantly up from CHF 3.5 billion in the first half of 2008, reflecting its commitment to capital efficiency. The Group's net debt was CHF 17.4 billion, down from CHF 25.8 billion at the end of June 2008. The continuing Share Buy-Back programme and the payment of the dividend together resulted in about CHF 6.5 billion of cash returned to shareholders in the first half of 2009.

## Share Buy-Back programme

On 28 July 2009, Nestlé completed the first stage of its CHF 25 billion Share Buy-Back programme, amounting to CHF 15 billion. A second stage of this programme, amounting to CHF 10 billion, will start on 13 August 2009. Nestlé's CHF 25 billion Share Buy-Back programme is foreseen to be completed by end of 2010.

## Sales and EBIT margin by operating segment

In the first half of 2009, the organic growth of Nestlé's overall Food and Beverages activities amounted to 0.5% in Europe, 4.6% in the Americas and 6.6% in Asia, Oceania and Africa.

Zone Europe: sales of CHF 10.8 billion, 0.2% organic growth and –1.5% real internal growth. The EBIT margin was 11.8%, the same level as a year ago. Savings from the acceleration of the Nestlé Continuous Excellence Programme compensated temporary volume softness, additional pension costs and continued investment in marketing. Great Britain and Eastern Europe, particularly Russia and the Ukraine, as well as the regional petcare business and soluble coffee, achieved high organic growth.

Zone Americas: sales of CHF 15.2 billion, 6.6% organic growth and 1.9% real internal growth. The EBIT margin improved by 20 basis points due to growth and significant cost savings from the Nestlé Continuous Excellence Programme. Both North and Latin America experienced strong organic growth, particularly the US, Brazil and Mexico. Soluble coffee and beverages, frozen food and petcare did particularly well.

Zone Asia, Oceania and Africa: sales of CHF 7.7 billion, 5.9% organic growth and 2.2% real internal growth. The EBIT margin improved by 60 basis points due to growth leverage and operational efficiencies. There were good performances across the emerging markets with Africa, China, India and the Philippines, amongst others, achieving double-digit organic growth. Soluble coffee, ambient culinary, powdered and ready-to-drink beverages, petcare and chocolate all delivered strong organic growth. Popularly Positioned Products (PPPs), aimed at emerging consumers, continued to achieve double-digit organic growth.

Nestlé Waters: sales of CHF 4.7 billion, –2.9% organic growth and –3.7% real internal growth. The EBIT margin increased by 110 basis points, benefiting from lower oil-related costs, efficiencies and supply chain optimisation. The organic growth reflects the current environment in the bottled water industry as a whole, particularly in Western Europe and North America. The emerging market businesses achieved double-digit organic growth. *Nestlé Pure Life* maintained good momentum around the world and drove market share gains in the US.

Nestlé Nutrition: sales of CHF 5.0 billion, 1.5% organic growth and –2.4% real internal growth. The EBIT margin decreased by 110 basis points, reflecting upfront investments in media campaigns and increased support for the accelerating *NaturNes* launch in Europe. All divisions accelerated during the first half from their first quarter performance. The infant nutrition business showed signs of improving momentum in Europe and the US during the period, and maintained good organic growth in Latin America, Asia, Oceania and Africa, supported by a strong innovation and renovation pipeline.

Other Food and Beverages: sales of CHF 4.9 billion, 6.1% organic growth and 2.4% real internal growth. The EBIT margin increased by 20 basis points due to growth leverage and operational efficiencies. Cereal Partners Worldwide and Nespresso continued to perform well. Nestlé Professional was affected by a softer out-of-home market in developed countries but delivered strong performances in many emerging markets such as Greater China, the Philippines and the Middle East, resulting in virtually flat organic growth.

Pharma: sales of CHF 4.0 billion, 5.0% organic growth and 5.1% real internal growth. The EBIT margin improved by 80 basis points, mainly due to growth, operational efficiencies and a positive product mix.

## Sales and EBIT margin by product

Powdered and Liquid Beverages: sales of CHF 9.2 billion, 9.7% organic growth and 4.7% real internal growth. The EBIT margin declined by 110 basis points, mainly due to the increased support for the enlarged *Nescafé Dolce Gusto* roll-out and raw material cost pressures. The strong growth confirms the dynamism of Nestlé's billionaire brands *Nescafé*, *Nesquik*, *Nespresso*, *Milo* and *Nestea*. These brands benefited from a strong pipeline of new products, ranging from PPP offerings to super-premium. The successful roll-out of *Nescafé Dolce Gusto* continued and allowed Nestlé to increase its market share in the fast-growing portioned coffee segment. Nespresso continued its outstanding performance with organic growth over 25%. Overall, the product segment achieved double-digit growth in Eastern Europe, the Americas, Asia, Oceania, the Middle East and Africa.

Milk products and Ice cream: sales of CHF 9.6 billion, 0% organic growth and –1.3% real internal growth. The EBIT margin declined by 20 basis points due to lower pricing in ambient dairy in anticipation of falling raw material costs. The EBIT margin in ice cream increased due to efficiencies and the exit from underperforming markets. There were the first signs of a pick up in consumer demand for ambient dairy in emerging markets after the high prices seen in 2008. Ice cream's organic growth improved over the first half of 2009 thanks to innovations such as *Häagen Dazs 5* in North America and the successful launch of *Nestlé Extrême all natural* in Switzerland.

Prepared dishes and cooking aids: sales of CHF 8.2 billion, 1.0% organic growth and 0% real internal growth. The EBIT margin improved by 90 basis points due to product range rationalisation. *Maggi* achieved double-digit organic growth in Africa, Asia and Eastern Europe. In the US, *Hot Pockets*, *Stouffer's* and *Lean Cuisine* frozen prepared meals delivered a good first half performance. In Europe, frozen prepared meals were weak while the pizza business continued to perform well.

Confectionery: sales of CHF 5.1 billion, 4.3% organic growth and –1.3% real internal growth. The EBIT margin increased by 60 basis points due to efficiencies and product lines streamlining. *Kit Kat* continued its excellent performance with strong organic growth and market share gains. The UK business continued to perform well with its focus on its seven key brands, as did the US. Overall, the emerging markets in Asia, Africa, the Middle East and Latin America continued to deliver strong organic growth.

PetCare: sales of CHF 6.4 billion, 9.1% organic growth and 2.7% real internal growth. The EBIT margin increased by 120 basis points due to continued growth of high value-added strategic brands, together with pricing to offset input cost pressures. The global petcare business' excellent performance was driven by resilient demand for key premium and super premium brands such as *One*, *Beneful*, *Cat Chow*, *Pro Plan* and *Friskies*.

## Outlook

Nestlé's first half performance of 3.5% organic growth combined with a 30 basis points EBIT margin improvement reflects the Group's strength in challenging times while making it fitter for the future. Indeed, Nestlé's successful efficiency programmes enabled it both to invest for growth and deliver this EBIT margin improvement. The Group expects volume-driven organic growth to accelerate in the second half as well as an EBIT margin improvement in constant currencies for the full year. The Group remains committed to its strategic direction focused on sustainable, long-term profitable growth and is well placed to capture opportunities as economic conditions improve.

# Key figures (consolidated)

| In millions of CHF (except for per share data) | | January–June 2009 | January–June 2008 |
|---|---|---|---|
| Sales | | 52 267 | 53 066 |
| EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments | | 7 383 | 7 341 |
| *as % of Sales* | | *14.1%* | *13.8%* |
| EBIT (Food and Beverages) | | 6 013 | 6 077 |
| *as % of Sales (Food and Beverages)* | | *12.4%* | *12.3%* |
| Profit for the period attributable to shareholders of the parent (Net profit) | | 5 071 | 5 214 |
| *as % of Sales* | | *9.7%* | *9.8%* |
| Capital expenditure | | 1 521 | 1 643 |
| *as % of Sales* | | *2.9%* | *3.1%* |
| Equity attributable to shareholders of the parent, end June | | 50 361 | 46 233 |
| Market capitalisation, end June | | 146 688 | 171 539 |
| Operating cash flow | | 6 431 | 3 461 |
| Free cash flow [a] | | 4 420 | 1 542 |
| Net financial debt | | 17 449 | 25 806 |
| Per share | | | |
| Total basic earnings per share | CHF | 1.41 | 1.39 |
| Total fully diluted earnings per share | CHF | 1.40 | 1.39 |
| Equity attributable to shareholders of the parent, end June | CHF | 13.98 | 12.35 |

[a] Operating cash flow less capital expenditure, sale of property, plant and equipment, expenditure on and sale of intangible assets, cash flows with associates as well as with non-controlling interests

Principal key figures in USD and EUR (Illustrative)

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

| In millions of USD (except for per share data) | | January–June 2009 | January–June 2008 |
|---|---|---|---|
| Sales | | 46 233 | 50 620 |
| EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments | | 6 531 | 7 003 |
| Profit for the period attributable to shareholders of the parent (Net profit) | | 4 486 | 4 974 |
| Equity attributable to shareholders of the parent, end June | | 46 650 | 45 416 |
| Market capitalisation, end June | | 135 879 | 168 506 |
| Per share | | | |
| Total basic earnings per share | USD | 1.25 | 1.33 |
| Equity attributable to shareholders of the parent, end June | USD | 12.95 | 12.13 |

| In millions of EUR (except for per share data) | | | |
|---|---|---|---|
| Sales | | 34 701 | 33 050 |
| EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments | | 4 902 | 4 572 |
| Profit for the period attributable to shareholders of the parent (Net profit) | | 3 367 | 3 247 |
| Equity attributable to shareholders of the parent, end June | | 33 029 | 28 762 |
| Market capitalisation, end June | | 96 204 | 106 717 |
| Per share | | | |
| Total basic earnings per share | EUR | 0.94 | 0.87 |
| Equity attributable to shareholders of the parent, end June | EUR | 9.17 | 7.68 |

# Consolidated income statement for the period ended 30 June 2009

| In millions of CHF | Notes | | January–June 2009 | | January–June 2008 |
|---|---|---|---|---|---|
| **Sales** | 3 | | **52 267** | | 53 066 |
| Cost of goods sold | | | (22 214) | | (22 697) |
| Distribution expenses | | | (4 215) | | (4 457) |
| Marketing and administration expenses | | | (17 484) | | (17 676) |
| Research and development costs | | | (971) | | (895) |
| **EBIT** **Earnings Before Interest, Taxes, restructuring and impairments** | 3 | | **7 383** | | 7 341 |
| Net other income/(expenses) | 5 | | | | |
| Other income | | 146 | | 132 | |
| Other expenses | | (348) | | (366) | |
| | | | (202) | | (234) |
| **Profit before interest and taxes** | | | **7 181** | | 7 107 |
| Net financing cost | | | | | |
| Financial income | | 73 | | 100 | |
| Financial expense | | (394) | | (637) | |
| | | | (321) | | (537) |
| **Profit before taxes and associates** | | | **6 860** | | 6 570 |
| Taxes | | | (1 646) | | (1 591) |
| Share of results of associates | 6 | | 521 | | 612 |
| **Profit for the period** | | | **5 735** | | 5 591 |
| of which attributable to non-controlling interests | | | 664 | | 377 |
| of which attributable to shareholders of the parent (Net profit) | | | 5 071 | | 5 214 |

| | | |
|---|---|---|
| **As % of Sales** | | |
| EBIT Earnings Before Interest, Taxes, restructuring and impairments | 14.1% | 13.8% |
| Profit for the period attributable to shareholders of the parent (Net profit) | 9.7% | 9.8% |

| | | |
|---|---|---|
| **Earnings per share** (in CHF) | | |
| Basic earnings per share | 1.41 | 1.39 |
| Fully diluted earnings per share | 1.40 | 1.39 |

# Consolidated statement of comprehensive income for the period ended 30 June 2009

| In millions of CHF | January–June 2009 | January–June 2008 |
|---|---|---|
| **Profit for the period recognised in the income statement** | **5 735** | **5 591** |
| Currency retranslations | 1 605 | (3 252) |
| Fair value adjustments on available-for-sale financial instruments | | |
| – Unrealised results | (84) | (228) |
| – Recognition of realised results in the income statement | 2 | 8 |
| Fair value adjustments on cash flow hedges | | |
| – Recognised in hedging reserve | 30 | 162 |
| – Removed from hedging reserve | 142 | (18) |
| Actuarial gains/(losses) on defined benefit schemes | (360) | (33) |
| Share of other comprehensive income of associates | (311) | (1 138) |
| Taxes | (121) | 63 |
| **Other comprehensive income for the period** | **903** | **(4 436)** |
| **Total comprehensive income for the period** | **6 638** | **1 155** |
| of which attributable to non-controlling interests | 731 | 238 |
| of which attributable to shareholders of the parent | 5 907 | 917 |

# Consolidated balance sheet as at 30 June 2009

| In millions of CHF | Notes | 30 June 2009 | 31 December 2008 | 30 June 2008 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | | 6 031 | 5 835 | 7 301 |
| Short term investments | | 1 560 | 1 296 | 2 671 |
| Inventories | | 9 835 | 9 342 | 10 534 |
| Trade and other receivables | | 14 013 | 13 442 | 14 494 |
| Prepayments and accrued income | | 828 | 627 | 851 |
| Derivative assets | | 1 479 | 1 609 | 1 008 |
| Current income tax assets | | 590 | 889 | 533 |
| Assets held for sale | | 23 | 8 | 74 |
| **Total current assets** | | **34 359** | **33 048** | **37 466** |
| Non-current assets | | | | |
| Property, plant and equipment | | 21 936 | 21 097 | 20 890 |
| Goodwill | | 31 462 | 30 637 | 31 045 |
| Intangible assets | | 6 912 | 6 867 | 7 014 |
| Investments in associates | | 7 844 | 7 796 | 7 668 |
| Financial assets | | 3 893 | 3 868 | 3 784 |
| Employee benefits assets | | 80 | 60 | 1 294 |
| Deferred tax assets | | 2 748 | 2 842 | 1 746 |
| **Total non-current assets** | | **74 875** | **73 167** | **73 441** |
| **Total assets** | | **109 234** | **106 215** | **110 907** |

| In millions of CHF | Notes | 30 June 2009 | 31 December 2008 | 30 June 2008 |
|---|---|---|---|---|

## Liabilities and equity

| | | | | |
|---|---|---|---|---|
| Current liabilities | | | | |
| Financial liabilities | | 16 669 | 15 383 | 29 234 |
| Trade and other payables | | 12 044 | 12 608 | 12 558 |
| Accruals and deferred income | | 2 903 | 2 931 | 3 230 |
| Derivative liabilities | | 1 611 | 1 477 | 543 |
| Current income tax liabilities | | 813 | 824 | 869 |
| Liabilities directly associated with assets held for sale | | 5 | – | 11 |
| **Total current liabilities** | | **34 045** | **33 223** | **46 445** |
| Non-current liabilities | | | | |
| Financial liabilities | | 8 371 | 6 344 | 6 544 |
| Employee benefits liabilities | | 5 761 | 5 464 | 4 439 |
| Provisions | | 3 797 | 3 663 | 3 135 |
| Deferred tax liabilities | | 1 401 | 1 341 | 1 039 |
| Other payables | | 1 251 | 1 264 | 944 |
| **Total non-current liabilities** | | **20 581** | **18 076** | **16 101** |
| **Total liabilities** | | **54 626** | **51 299** | **62 546** |
| Equity | | | | |
| Share capital | 7 | 365 | 383 | 383 |
| Treasury shares | | (2 494) | (9 652) | (5 147) |
| Translation reserve | | (9 550) | (11 103) | (9 415) |
| Retained earnings and other reserves | | 62 040 | 71 146 | 60 412 |
| **Total equity attributable to shareholders of the parent** | | **50 361** | **50 774** | **46 233** |
| Non-controlling interests | | 4 247 | 4 142 | 2 128 |
| **Total equity** | | **54 608** | **54 916** | **48 361** |
| **Total liabilities and equity** | | **109 234** | **106 215** | **110 907** |

# Consolidated cash flow statement for the period ended 30 June 2009

| In millions of CHF | Notes | January–June 2009 | January–June 2008 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the period | | 5 735 | 5 591 |
| Non-cash items of income and expense | 8 | 1 574 | 1 259 |
| Decrease/(increase) in working capital | | (1 356) | (2 963) |
| Variation of other operating assets and liabilities | | 478 | (426) |
| **Operating cash flow** | | **6 431** | **3 461** |
| **Investing activities** | | | |
| Capital expenditure | | (1 521) | (1 643) |
| Expenditure on intangible assets | | (182) | (296) |
| Sale of property, plant and equipment | | 68 | 54 |
| Acquisitions of businesses | 9 | (151) | (665) |
| Disposals of businesses | 9 | 53 | 127 |
| Cash flows with associates | | 344 | 349 |
| Other investing cash flows | | (70) | (101) |
| **Cash flow from investing activities** | | **(1 459)** | **(2 175)** |
| **Financing activities** | | | |
| Dividend paid to shareholders of the parent | 7 | (5 047) | (4 573) |
| Purchase of treasury shares | | (1 544) | (3 542) |
| Sale of treasury shares | | 157 | 144 |
| Cash flows with non-controlling interests | | (650) | (282) |
| Bonds issued | 10 | 2 997 | 1 923 |
| Bonds repaid | 10 | (1 122) | (1 874) |
| Increase in other non-current financial liabilities | | 94 | 213 |
| Decrease in other non-current financial liabilities | | (47) | (45) |
| Increase/(decrease) in current financial liabilities | | 448 | 7 724 |
| Decrease/(increase) in short-term investments | | (204) | (22) |
| **Cash flow from financing activities** | | **(4 918)** | **(334)** |
| Currency retranslations | | 142 | (245) |
| **Increase/(decrease) in cash and cash equivalents** | | **196** | **707** |
| Cash and cash equivalents at beginning of year | | 5 835 | 6 594 |
| **Cash and cash equivalents at end of period** | | **6 031** | **7 301** |

# Consolidated statement of changes in equity for the period ended 30 June 2009

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 |
|---|---|---|---|---|---|---|---|
| **January–June 2008** | | | | | | | |
| **Equity as at 31 December 2007** | 393 | (8 013) | (6 302) | 66 549 | 52 627 | 2 149 | 54 776 |
| Total comprehensive income | | | (3 113) | 4 030 | 917 | 238 | 1 155 |
| Dividend paid to shareholders of the parent | | | | (4 573) | (4 573) | | (4 573) |
| Dividends paid to non-controlling interests | | | | | – | (313) | (313) |
| Movement of treasury shares (net) | | (2 622) | | (266) | (2 888) | | (2 888) |
| Changes in non-controlling interests | | | | | – | 41 | 41 |
| Equity compensation plans | | 209 | | (59) | 150 | 13 | 163 |
| Reduction in share capital | (10) | 5 279 | | (5 269) | – | | – |
| **Equity as at 30 June 2008** | 383 | (5 147) | (9 415) | 60 412 | 46 233 | 2 128 | 48 361 |
| **January–June 2009** | | | | | | | |
| **Equity as at 31 December 2008** | 383 | (9 652) | (11 103) | 71 146 | 50 774 | 4 142 | 54 916 |
| Total comprehensive income | | | 1 553 | 4 354 | 5 907 | 731 | 6 638 |
| Dividend paid to shareholders of the parent | | | | (5 047) | (5 047) | | (5 047) |
| Dividends paid to non-controlling interests | | | | | – | (653) | (653) |
| Movement of treasury shares (net) | | (1 366) | | (21) | (1 387) | | (1 387) |
| Changes in non-controlling interests | | | | | – | 5 | 5 |
| Equity compensation plans | | 134 | | (20) | 114 | 22 | 136 |
| Reduction in share capital | (18) | 8 390 | | (8 372) | – | | – |
| **Equity as at 30 June 2009** | 365 | (2 494) | (9 550) | 62 040 | 50 361 | 4 247 | 54 608 |

# Notes

## 1. Accounting policies

### Basis of preparation

These financial statements are the unaudited interim consolidated financial statements for the six-month period ended 30 June 2009. They have been prepared in accordance with IAS 34 – Interim Financial Reporting and should be read in conjunction with the 2008 Consolidated Financial Statements.

The accounting conventions and accounting policies are the same as those applied in the 2008 Consolidated Financial Statements, except for the changes mentioned below.

### Changes in accounting policies

The Group has applied the following International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) as from 1 January 2009 onwards:

#### IFRS 7 amendments – Financial Instruments: Disclosures

The IFRS 7 amendments, which require entities to disclose information about the measurement hierarchy of financial instruments, will be included in the 2009 year-end Group financial statements. At the end of June 2009, most of the Group's financial instruments are measured on the basis of prices quoted on active markets (commodity futures) and on the basis of valuation techniques such as discounted cash flow calculations or other pricing models.

#### IFRS 8 – Operating segments

IFRS 8 requires separate reporting of segmental information for operating segments. Operating segments reflect the Group's management structure and the way financial information is regularly reviewed by the Group's chief operating decision maker, which is defined as the Executive Board.

The Group is focused in two areas of activity, Food and Beverages, and Pharmaceuticals. The Group's Food and Beverages business is managed through three geographic Zones and several Globally Managed Businesses (GMBs). Zones and GMBs, that exceed the quantitative threshold of 10% of sales, EBIT or assets, are presented on a standalone basis as reportable segments. Other GMBs that do not meet the threshold, like Nestlé Professional, Nespresso, and the food and beverages Joint Ventures, are aggregated and presented in Other Food and Beverages. The Group's pharmaceutical activities are also managed, and presented, separately. Therefore, the Group's operating segments are:

- Zone Europe;
- Zone Americas;
- Zone Asia, Oceania and Africa;
- Nestlé Waters;
- Nestlé Nutrition;
- Other Food and Beverages; and
- Pharma.

Comparative information has been restated, considering that, as from 1 January 2009, Nestlé Professional activities are managed separately from the three geographic Zones and, consequently, disclosed in Other Food and Beverages.

As some operating segments represent geographic zones, information by product is also disclosed. The eight product groups that are disclosed represent the highest categories of products that are followed internally. The water products are now disclosed separately from Powdered and Liquid Beverages, and the nutrition products from Milk products and Ice cream. Comparative information has been restated accordingly.

### IAS 1 Revised – Presentation of financial statements

The standard includes non-mandatory changes of the titles of the financial statements. The Group has chosen the option to maintain the existing titles. The standard also introduces a statement of comprehensive income, but allows presenting a two statement approach with a separate income statement and a statement of comprehensive income, which is the option that the Group has chosen.

### IAS 23 Revised – Borrowing costs

The revised standard removes the option of recognising as an expense borrowing costs directly attributable to acquisition, construction or production of a qualifying asset as previously elected by the Group. This standard has no material impact on the Group financial statements, as the construction period of the Group's main assets is usually rather short.

### IFRIC 13 – Consumer loyalty programmes

This interpretation requires that the fair value of the consideration related to award credits programmes be separately identified as a component of the sales transaction and recognised when the awards are redeemed by the customers and the corresponding obligations are fulfilled by the Group. Such programmes are not numerous in the Group and this interpretation has no material effect on its results. Therefore, no restatement of comparative information is required.

### IFRIC 16 – Hedges of a net investment in a foreign operation

This interpretation deals with the nature of the hedged risk, its designation and where the hedging instrument can be held. This interpretation has no impact on the Group financial statements as the Group already complies with its requirements.

### Improvements and other amendments of IFRSs or IFRICs

Improvements or other amendments effective in 2009 do not have a material effect on the Group financial statements.

## Changes in IFRSs that may affect the Group after 31 December 2009

### IFRS 3 Revised – Business combinations

This standard will be effective for the first annual reporting period beginning on or after 1 July 2009. The Group will thus apply it prospectively as from 1 January 2010 onwards. The revised standard will cause the following changes:

- acquisition costs will be expensed;
- for a business combination in which the acquirer achieves control without buying all of the equity of the acquiree, the remaining non-controlling interests are measured either at fair value or at their proportionate share of the acquiree's net identifiable assets;
- upon obtaining control in a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest at fair value and recognise a gain or a loss to the income statement; and
- changes in the contingent consideration of an acquisition will be accounted for outside goodwill, in the income statement.

### IAS 27 Revised – Consolidated and separate financial statements

This standard will be applicable prospectively for the first annual reporting period beginning on or after 1 July 2009. The Group will thus apply it as from 1 January 2010 onwards. The revised standard stipulates that a change in the non-controlling interests of an acquiree that does not result in a loss of control shall be recognised in equity.

### Amendments to IAS 39 – Financial Instruments: Recognition and Measurement

As part of the annual improvements to IFRSs published in April 2009, IAS 39 was amended to require options that are exchanged between a buyer and a seller in a business combination to buy or sell a business at a later date, to be accounted for as derivative financial instruments. Consequently, such options must be recognised on the balance sheet and be measured at fair value.

As mentioned in the 2008 Consolidated Financial Statements, on 7 July 2008, the Group sold 24.8% of Alcon's outstanding capital to Novartis. The agreement further included the option for Novartis to acquire Nestlé's remaining shareholding in Alcon at a price of USD 181.– per share from January 2010 until July 2011. During the same period, Nestle will have the option to sell its remaining shareholding in Alcon to Novartis at the lower of either the call price of USD 181.– per share or the average share price during the week preceding the exercise plus a premium of 20.5%.

As at June 2009, the outstanding put and call options are not recognised in the financial statements. As a result of the amendment to IAS 39, they will have to be recognised as from 1 January 2010 onwards. The Group is currently assessing the impact of this amendment.

## 2. Modification of the scope of consolidation

There were no major acquisitions or disposals affecting the scope of consolidation for this interim period.

## 3. Analysis by segment

### 3.1 Operating segments

In millions of CHF

| | | Zone Europe | Zone Americas | Zone Asia, Oceania and Africa | Nestlé Waters | Nestlé Nutrition |
|---|---|---|---|---|---|---|
| January–June 2008 [c] | **Sales** | 12 233 | 14 355 | 7 648 | 4 954 | 5 176 |
| | **EBIT** Earnings Before Interest, Taxes, restructuring and impairments | 1 449 | 2 152 | 1 235 | 357 | 956 |
| | Impairment of segment assets | (29) | (11) | 13 | (15) | (2) |
| | Restructuring costs | (50) | (16) | (18) | (44) | (7) |
| | Net other income/(expenses) excluding restructuring and impairments | | | | | |
| | Net financing cost | | | | | |
| | **Profit before taxes and associates** | | | | | |
| January–June 2009 | **Sales** | 10 791 | 15 197 | 7 733 | 4 723 | 4 995 |
| | **EBIT** Earnings Before Interest, Taxes, restructuring and impairments | 1 273 | 2 307 | 1 292 | 392 | 869 |
| | Impairment of segment assets | (29) | – | (1) | (9) | (1) |
| | Restructuring costs | (62) | (25) | (8) | (16) | (8) |
| | Net other income/(expenses) excluding restructuring and impairments | | | | | |
| | Net financing cost | | | | | |
| | **Profit before taxes and associates** | | | | | |

[a] Mainly Nespresso, Nestlé Professional and Food and Beverages Joint Ventures managed on a worldwide basis
[b] Mainly corporate expenses as well as research and development costs for Food and Beverages
[c] 2008 comparatives have been restated following first application of IFRS 8 to reflect internal changes in management responsibility as of 1 January 2009. Globally managed Nestlé Professional activities are now reclassified from the Zones to Other Food and Beverages.

The analysis of sales by geographic area is stated by customer location. Inter-segment sales are not significant.

| Other Food and Beverages [a] | Unallocated items [b] | Total Food and Beverages | Pharma | Total | | |
|---|---|---|---|---|---|---|
| 4 957 | | 49 323 | 3 743 | 53 066 | **Sales** | January–June 2008 [c] |
| 787 | (859) | 6 077 | 1 264 | 7 341 | **EBIT** Earnings Before Interest, Taxes, restructuring and impairments | |
| (6) | – | (50) | (45) | (95) | Impairment of segment assets | |
| (4) | – | (139) | (22) | (161) | Restructuring costs | |
| | | | | 22 | Net other income/(expenses) excluding restructuring and impairments | |
| | | | | (537) | Net financing cost | |
| | | | | 6 570 | **Profit before taxes and associates** | |
| 4 874 | | 48 313 | 3 954 | 52 267 | **Sales** | January–June 2009 |
| 786 | (906) | 6 013 | 1 370 | 7 383 | **EBIT** Earnings Before Interest, Taxes, restructuring and impairments | |
| – | – | (40) | (21) | (61) | Impairment of segment assets | |
| (7) | – | (126) | (23) | (149) | Restructuring costs | |
| | | | | 8 | Net other income/(expenses) excluding restructuring and impairments | |
| | | | | (321) | Net financing cost | |
| | | | | 6 860 | **Profit before taxes and associates** | |

## 3.2 Products

In millions of CHF

| | | Powdered and Liquid Beverages | Water | Milk products and Ice cream | Nutrition | Prepared dishes and cooking aids | Confectionery |
|---|---|---|---|---|---|---|---|
| January–June 2008 [b] | Sales | 9 038 | 4 957 | 10 270 | 5 180 | 8 555 | 5 430 |
| | **EBIT** Earnings Before Interest, Taxes, restructuring and impairments | 2 071 | 357 | 1 148 | 956 | 969 | 583 |
| | Impairment of segment assets | (1) | (15) | (7) | (2) | (16) | – |
| | Restructuring costs | (12) | (44) | (23) | (8) | (35) | (13) |
| | Net other income/(expenses) excluding restructuring and impairments | | | | | | |
| | Net financing cost | | | | | | |
| | **Profit before taxes and associates** | | | | | | |
| January–June 2009 | Sales | 9 242 | 4 726 | 9 628 | 4 997 | 8 221 | 5 118 |
| | **EBIT** Earnings Before Interest, Taxes, restructuring and impairments | 2 016 | 393 | 1 057 | 869 | 1 003 | 576 |
| | Impairment of segment assets | (2) | (9) | (6) | (1) | (5) | (17) |
| | Restructuring costs | (22) | (16) | (35) | (8) | (24) | (17) |
| | Net other income/(expenses) excluding restructuring and impairments | | | | | | |
| | Net financing cost | | | | | | |
| | **Profit before taxes and associates** | | | | | | |

[a] Mainly corporate expenses as well as research and development costs for Food and Beverages
[b] 2008 comparatives have been restated following first application of IFRS 8. The water products are now disclosed separately from Powdered and Liquid Beverages, and the nutrition products from Milk products and Ice cream.

| PetCare | Unallocated items [a] | Total Food and Beverages | Pharmaceutical products | Total | | |
|---|---|---|---|---|---|---|
| 5 893 | | 49 323 | 3 743 | 53 066 | **Sales** | January–June 2008 [b] |
| 852 | (859) | 6 077 | 1 264 | 7 341 | **EBIT** Earnings Before Interest, Taxes, restructuring and impairments | |
| (9) | – | (50) | (45) | (95) | Impairment of segment assets | |
| (4) | – | (139) | (22) | (161) | Restructuring costs | |
| | | | | 22 | Net other income/(expenses) excluding restructuring and impairments | |
| | | | | (537) | Net financing cost | |
| | | | | 6 570 | **Profit before taxes and associates** | |
| 6 381 | | 48 313 | 3 954 | 52 267 | **Sales** | January–June 2009 |
| 1 005 | (906) | 6 013 | 1 370 | 7 383 | **EBIT** Earnings Before Interest, Taxes, restructuring and impairments | |
| – | – | (40) | (21) | (61) | Impairment of segment assets | |
| (4) | – | (126) | (23) | (149) | Restructuring costs | |
| | | | | 8 | Net other income/(expenses) excluding restructuring and impairments | |
| | | | | (321) | Net financing cost | |
| | | | | 6 860 | **Profit before taxes and associates** | |

## 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 income/(expenses)

| In millions of CHF | January–June 2009 | January–June 2008 |
|---|---|---|
| Other income | | |
| Profit on sale of property, plant and equipment | 26 | 12 |
| Profit on disposal of businesses | 17 | 64 |
| Other | 103 | 56 |
| | **146** | **132** |
| Other expenses | | |
| Loss on disposal of property, plant and equipment | (33) | (1) |
| Loss on disposal of businesses | (12) | (25) |
| Restructuring costs | (149) | (161) |
| Impairment of property, plant and equipment | (41) | (39) |
| Impairment of goodwill and intangible assets | (20) | (56) |
| Other | (93) | (84) |
| | **(348)** | **(366)** |
| **Net other income/(expenses)** | **(202)** | **(234)** |

## 6. Share of results of associates

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

## 7. Equity

### Share capital

The share capital changed twice in the last two financial years as a consequence of the share buy-back programme launched in 2007; the cancellation of shares was approved at the Annual General Meetings of 10 April 2008 and 23 April 2009. In 2008, the share capital was reduced by 10 072 500 shares from CHF 393 million to CHF 383 million. In 2009, the share capital was further reduced by 180 000 000 shares from CHF 383 million to CHF 365 million.

At 30 June 2009, the share capital of Nestlé S.A. is composed of 3 650 000 000 of registered shares with a nominal value of CHF 0.10 each.

### Dividend

The dividend related to 2008 was paid on 29 April 2009 in conformity with the decision taken at the Annual General Meeting on 23 April 2009. Shareholders approved the proposed dividend of CHF 1.40 per share, resulting in a total dividend of CHF 5047 million.

## 8. Non-cash items of income and expense

| In millions of CHF | January–June 2009 | January–June 2008 |
|---|---|---|
| Share of results of associates | (521) | (612) |
| Depreciation of property, plant and equipment | 1 348 | 1 294 |
| Impairment of property, plant and equipment | 41 | 39 |
| Impairment of goodwill and intangible assets | 20 | 56 |
| Amortisation of intangible assets | 321 | 300 |
| Net result on disposal of businesses | (5) | (39) |
| Net result on disposal of assets | (74) | 32 |
| Non-cash items in financial assets and liabilities | 212 | 113 |
| Deferred taxes | 227 | (131) |
| Taxes in other comprehensive income | (121) | 63 |
| Equity compensation plans | 126 | 144 |
| | **1 574** | 1 259 |

## 9. Acquisition and disposal of businesses

Cash outflows and inflows recognised in the first six months of 2008 and 2009 are related to several small acquisitions and disposals. The sales and the profit for the periods are not significantly impacted by acquisitions and disposals.

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

## 10. Bonds

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

| In millions of CHF | | | | | | January–June 2009 |
|---|---|---|---|---|---|---|
| Issuer | Face value in millions | Coupon | Effective interest rates | Year of issue/ maturity | Comments | |
| **New issues** | | | | | | |
| Nestlé Holdings, Inc., USA | USD 275 | 2.00% | 2.37% | 2009–2013 | (a) | 307 |
| Nestlé Finance International Ltd., Luxembourg | CHF 775 | 1.25% | 1.40% | 2009–2012 | (b) | 768 |
| | CHF 875 | 2.00% | 2.08% | 2009–2013 | (b) | 879 |
| | CHF 425 | 2.00% | 2.04% | 2009–2014 | (b) | 420 |
| | CHF 275 | 2.13% | 2.13% | 2009–2014 | (b) | 277 |
| | CHF 350 | 2.13% | 2.20% | 2009–2015 | (b) | 346 |
| **Total new issues** | | | | | | **2 997** |
| **Repayments** | | | | | | |
| Nestlé Holdings, Inc., USA | EUR 250 | 2.13% | 2.97% | 2005–2009 | (a) | 358 |
| | GBP 200 | 5.13% | 5.38% | 2006–2009 | (a) | 437 |
| Nestlé Finance International Ltd., Luxembourg | HUF 25000 | 7.00% | 7.00% | 2004–2009 | (a) | 154 |
| (formerly Nestlé Finance-France S.A., France) | EUR 100 | 3.50% | 3.52% | 2006–2009 | (a) | 151 |
| Other | | | | | | 22 |
| **Total repayments** | | | | | | **1 122** |

(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) Subject to a currency swap to hedge the CHF face value exposure.

## Principal exchange rates

| CHF per | | June 2009 | December 2008 | June 2008 | January–June 2009 | January–June 2008 |
|---|---|---|---|---|---|---|
| | | | Ending rates | | Weighted average rates | |
| 1 US Dollar | USD | 1.080 | 1.056 | 1.018 | 1.131 | 1.048 |
| 1 Euro | EUR | 1.525 | 1.488 | 1.607 | 1.506 | 1.606 |
| 1 Pound Sterling | GBP | 1.806 | 1.527 | 2.031 | 1.682 | 2.071 |
| 100 Brazilian Reais | BRL | 55.248 | 45.293 | 63.825 | 51.663 | 61.941 |
| 100 Japanese Yen | JPY | 1.131 | 1.169 | 0.964 | 1.179 | 0.998 |
| 100 Mexican Pesos | MXN | 8.206 | 7.672 | 9.888 | 8.170 | 9.883 |
| 1 Canadian Dollar | CAD | 0.937 | 0.868 | 1.010 | 0.941 | 1.038 |
| 1 Australian Dollar | AUD | 0.878 | 0.731 | 0.981 | 0.804 | 0.971 |
| 100 Philippine Pesos | PHP | 2.245 | 2.224 | 2.268 | 2.367 | 2.502 |

# Shareholder information

**Stock exchange listings**
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.

As to information concerning the share register (registrations, transfers, address changes, dividends, etc.), please contact
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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**
22 October 2009
Announcement of nine months 2009 sales figures; Autumn press conference

19 February 2010
2009 Full Year Results; press conference

15 April 2010
143rd Annual General Meeting, “Palais de Beaulieu”, Lausanne