Half-Yearly Report
January–June
2010

Nestlé
Good Food, Good Life

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Nestlé S.A., Group Accounting and Reporting

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Letter to shareholders

Fellow shareholders,

The Group's very successful first-half performance is due to the excellent execution of our proven strategies in all parts of the world, covering the full range from premium brands to value-priced offerings, combined with the ongoing successful implementation of Nestlé Continuous Excellence. We have increased investment in our brands, people and capabilities and have prepared the Company for a more challenging second half, which allows us to reconfirm our earlier full-year guidance for Food and Beverages: organic growth of around 5% combined with an increase in EBIT margin in constant currencies.

Sales, profitability and financial position

The Group achieved organic growth of 6.1% and an EBIT margin improvement to 15.1%, an increase of 80 basis points [1]. The Group's Food and Beverages business achieved 5.7% organic growth, built on a solid foundation of growth both in emerging markets as well as in Western Europe and North America. This growth represents an acceleration over the corresponding period in 2009, particularly in Europe as well as in Asia, Oceania and Africa. This top-line performance was combined with a 60 basis points EBIT margin improvement in Food and Beverages.

Organic growth for all Food and Beverages operations was 5.3% in the Americas, 3.6% in Europe and 10.4% in Asia, Oceania and Africa. The Group's emerging markets continued to achieve over 10% organic growth. BRIC countries' combined performance was even stronger. Key growth drivers included deeper distribution in emerging markets in support of a further roll-out of our value-priced, popularly-positioned products, and the continued success of premium products in both developed and developing markets. Recent innovations across all categories, combined with increased investment in consumer-facing marketing, were key to strengthening the Group's market positions. The leverage effects from our growth and scale as well as the ongoing efficiency drive under Nestlé Continuous Excellence contributed to the improvement in our EBIT margin, even after increased investment in the business to improve our performance in a sustainable way.

First-Half Results

The first-half results reflect our focus on delivering total performance in all categories and operations.

In the first half of 2010, the Nestlé Group's organic growth was 6.1%, including real internal growth of 4.6%. Foreign exchange impacted sales by –1.5%, whilst acquisitions, net of divestitures, added 1.3%. Overall, Group sales increased by 5.9% to CHF 55.3 billion. Food and Beverages' organic growth was 5.7%, with real internal growth of 4.2%. The foreign exchange impact was –1.5%, and acquisitions, net of divestitures, added 1.4%. Overall, Food and Beverages' sales increased by 5.6% to CHF 51.0 billion.

The Group's EBIT margin increased by 80 basis points like-for-like, or 70 basis points like-for-like in constant currencies, and by 100 basis points reported, to 15.1%.

For Food and Beverages, the improvement was 60 basis points to 13.0%, reported and in constant currencies. We achieved this higher EBIT margin whilst, at the same time, increasing our Food and Beverages consumer-facing marketing spend by over 14% in constant currencies.

The cost of goods sold was lower by 160 basis points like-for-like (180 basis points reported). Savings from Nestlé Continuous Excellence were in line with our CHF 1.5 billion full-year target, and more than compensated input cost pressures. The delivery of the planned savings for the full year will contribute to the Group meeting its full-year EBIT margin targets in a more challenging input cost environment during the second half. Distribution costs fell by 40 basis points, despite higher oil-related costs than in the first half of 2009, as a result of distribution synergies across operations in all three Zones, as well as Nestlé Waters' continued efforts to optimise its distribution structures. Administrative costs were down by 20 basis points, reflecting the roll-out of Nestlé Continuous Excellence to areas beyond operations.

Earnings per share rose by 13.5% from CHF 1.41 to CHF 1.60. Net profit was CHF 5.5 billion, up 7.5%.

[1] Like-for-like excluding the positive impact of no longer being allowed to depreciate the Alcon assets held for sale in 2010 by IFRS 5 (CHF 139 million).

The Group's operating cash flow was CHF 5.8 billion as a result of the normalisation of our working capital levels.

Business Review

Zone Americas: Sales of CHF 16.3 billion, 6.1% organic growth, 3.1% real internal growth; EBIT margin 15.1%, –10 basis points.

In North America, the Purina PetCare business continued to perform well, accelerating in the first half. *Beneful* grew double-digit, whilst *ONE* and *Dog Chow* achieved mid to high single-digit growth. In confectionery, the *Wonka* extension into chocolate continued to drive growth, as did *Nescafé Clásico* in soluble coffee. The frozen prepared meals category as a whole continued to suffer from weak consumer demand. While *Stouffers*' and *Hot Pockets* improved, *Lean Cuisine* continued to decline in a very challenging competitive environment. A new *Lean Cuisine* range was launched in June and we expect improvement by the end of the year. The frozen pizza business, acquired in March, performed particularly well, especially the *DiGiorno* brand, which achieved about 14% organic growth. In ice cream, we saw good growth from *Häagen Dazs* and *Skinny Cow*.

In Latin America, growth accelerated during the second quarter of 2010 to achieve double-digit organic growth in the first half. The biggest categories in the region, dairy and chocolate, both performed well. Dairy saw good growth across most of the region, particularly in Brazil and the Austral-America region, as well as in the Dairy Partners of America joint venture with Fonterra. Chocolate had a strong start to the year and a successful Easter season in Brazil and Mexico, as well as in smaller markets. The *Maggi* culinary business and *Nescafé* also both made good progress in their key markets.

Compared to the first half of 2009, the EBIT margin was down 10 basis points to 15.1% of sales. This was mainly due to weak demand for frozen food in North America. There was a positive contribution to the margin from a good delivery of savings and strong growth in the Zone. We continued to increase our brand investment.

Zone Europe: Sales of CHF 10.7 billion, 2.2% organic growth, 1.3% real internal growth; EBIT margin 11.9%, +10 basis points.

In Western Europe, we achieved positive real internal growth in all key markets. Our broad-based performance was achieved through a focus on increasing distribution, improving customer service and accelerating innovation and renovation. In Southern Europe, we achieved positive growth in Italy and the Iberian region and, in Eastern Europe, Poland and the Ukraine were strong performers. In Russia, we experienced good performances in many categories although ice cream and confectionery remained soft.

The ice cream market had a slow start to the season in Western Europe, but otherwise there was a positive evolution across the Zone's portfolio. Soluble coffee delivered good growth, with *Nescafé Dolce Gusto* continuing to build momentum and take share in its segment of the market. The culinary chilled and frozen food segments both performed well, particularly *Herta* in chilled food, and *Buitoni* and *Wagner* pizzas in frozen food. Ambient culinary, predominantly *Maggi*, gained share in its biggest market, Germany, and its Juicy Chicken range continued to build share across Europe. In chocolate, *KitKat* performed well across the Zone. PetCare continued its good momentum in the Zone, with mid single-digit organic growth, and good performances in Russia, Spain, and France amongst others, as well as strong performances from premium brands such as *Gourmet*, *Friskies*, *ONE* and *ProPlan*.

The EBIT margin increased by 10 basis points to 11.9%. This reflects a good delivery of savings from Nestlé Continuous Excellence, as well as lower raw material costs than in the first half of 2009. This was achieved despite increased advertising and promotional investment.

Zone Asia, Oceania and Africa: Sales of CHF 8.6 billion, 9.0% organic growth, 7.6% real internal growth; EBIT margin 16.9%, +20 basis points.

The emerging markets in Zone Asia, Oceania and Africa achieved double-digit growth, with strong performances across the Zone. Highlights were the South Asia region, including India, the Indochina region, including Vietnam and Thailand, the Central/West Africa region, Indonesia and China. Growth in Oceania and Japan was flat.

There were strong performances by most categories. *Nido* and the other milk brands were back on a good growth trajectory after a tough year in 2009. Ambient culinary, *Maggi*, also grew double-digit, due to a continued extension of its distribution, as well as successful innovation such as powdered bouillon cubes. Both powdered and ready-to-drink beverages made good progress, under brands such as *Milo*, *Nestea* and *Nescafé*. Soluble coffee had strong momentum in emerging markets and performed well in Japan, particularly due to the roll-out of the *Nescafé* Barista coffee system there. Chocolate continued to enjoy double-digit growth in emerging markets, driven partly by the successful implementation of its popularly positioned products model, including *Nestlé* Eclairs in India, which are the lowest priced products in Nestlé's portfolio.

The EBIT margin increased by 20 basis points to 16.9%, reflecting the growth leverage in the more profitable categories. This was enabled by increased investment in brands and distribution.

Nestlé Waters: Sales of CHF 4.7 billion, 2.5% organic growth, 3.0% real internal growth; EBIT margin 8.4%, +10 basis points.

The water market in the developed world returned to growth after a couple of years in which consumption fell. In the emerging world, robust growth continued, and we achieved near 20% organic growth. The Group's market share performance was good around the world.

We achieved positive real internal growth in both North America and Europe. In North America, *Nestlé Pure Life* continued to perform well, and there was an improvement in growth from regional waters such as *Poland Spring*. In Europe, we achieved positive growth in a number of markets, including France and Great Britain, despite the poor start to summer. The international brands, especially *S. Pellegrino* and *Perrier*, also had a strong start to the year globally.

The EBIT margin increased by 10 basis points to 8.4%. This reflects the faster growth of emerging markets, as well as the strong performance of the international brands. Raw material costs were higher than in the first half of 2009, but this was compensated by savings from Nestlé Continuous Excellence, including in structural costs, and the cost benefits of light-weighting bottles.

Nestlé Nutrition: Sales of CHF 5.3 billion, 6.2% organic growth, 5.2% real internal growth; EBIT margin 19.0%, +160 basis points.

Infant nutrition had a good start to the year, with positive growth in all zones and double-digit in many emerging markets, including Russia, China, the Middle East and Africa. The three segments, infant formula, baby food and infant cereals, all contributed with cereals being particularly strong. Key to the performance was continued R&D-led innovation, such as infant cereals with probiotics and infant formula that contributes to alleviating colic. Healthcare nutrition also gathered momentum over 2009, particularly in emerging markets but also in developed markets such as France and Spain, with the focus on core strategic platforms, including paediatrics and critical care. Our Jenny Craig weight management business saw good growth in its US home delivery business, but visit levels at its centres remained a drag to performance. It is early days for the French and British roll-outs but first indications are positive.

The EBIT margin increased by 160 basis points to 19%. This performance was achieved by a combination of higher growth than in the first half of 2009, structural reorganisations completed last year, savings from Nestlé Continuous Excellence, product rationalisation in certain divisions, and the achievement of synergies from acquisitions. This improvement was achieved whilst increasing brand support.

Other Food and Beverages: Sales of CHF 5.4 billion, 10.3% organic growth, 8.9% real internal growth; EBIT margin 18.6%, +250 basis points.

Nestlé Professional continued to build on the positive momentum seen already in the first quarter of 2010, with emerging markets driving the growth. The strategic repositioning of the beverages division as a solutions provider is already showing signs of its potential to drive greater value in our relationships with our customers. The food business also picked up momentum, with China, Latin America and Europe performing well.

Nespresso had another strong period, with over 25% organic growth and sales above CHF 3 billion on an annualised basis. The business continued to enjoy double-digit growth in its more established markets, such as Switzerland and France despite a changing competitive environment, and broadened its footprint in many other parts of the world. The boutique development is gathering pace, with about thirty to be opened in 2010: from Shanghai to New York, from Miami to Cape Town. At the same time, the investment in capacity continues, with an extension in Avenches that will bring the total investment at the site to CHF 400 million, doubling its capsule capacity by 2012.

Cereal Partners Worldwide grew its global market share, with a strong performance in many emerging markets, as well as in developed markets such as Australia and France. Beverage Partners Worldwide also achieved positive growth in the period.

The segment's EBIT margin increased by 250 basis points to 18.6%, with the main constituents all contributing. Nespresso had a particularly strong performance, and Nestlé Professional continued to benefit from its drive to improve its cost base and reduce under-performing business lines.

Pharma: Sales of CHF 4.3 billion, 11.1% organic growth, 9.2% real internal growth; EBIT margin 39.9%, +530 basis points, +210 basis points like-for-like.

There was a strong performance by all the constituents. Alcon's like-for-like EBIT margin improvement excludes the positive impact of no longer being allowed to depreciate the Alcon assets held for sale in 2010 by IFRS 5.

Corporate highlights of the first half of 2010

We announced the sale of our remaining holding in Alcon for around USD 28 billion and we expect to complete the transaction in the third quarter of 2010. We completed the acquisition of the Kraft pizza business and, shortly after the period under review, acquired Vitaflo, a global provider of clinical nutrition products based in the UK. We also acquired the leader in instant noodles and dehydrated seasonings in the Ukraine under the *Mivina* brand.

We established a joint venture with Dashan, the leader in bottled water in China's Yunnan province.

New facilities were inaugurated in various emerging markets: a Research and Development centre for biscuits and cereal-based snacks in Santiago de Chile; a facility devoted to manufacturing powdered milk and confectionery products in Dubai; and a water bottling factory in Poland. Furthermore, we expanded our milk processing facilities in Indonesia.

We announced several emerging market investments: USD 390 million in Mexico and CHF 150 million in the Equatorial African Region, both over a period of three years. Furthermore, we will invest CHF 60 million in the construction of a new culinary factory in Russia and CHF 98 million in the construction of a new dairy factory in the Philippines.

Jenny Craig's weight management programme was launched in France and in the UK.

We completed our CHF 25 billion three-year Share Buy-Back Programme and launched a new CHF 10 billion Share Buy-Back Programme.

Outlook

The Group's organic growth and EBIT margin in the first half, combined with the positive effect of our continued investment in the business, allows us to reconfirm our earlier full-year guidance for Food and Beverages: organic growth of around 5% and an EBIT margin improvement in constant currencies over last year.

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 2010	January–June 2009
Sales		55 344	52 267
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments		8 384	7 383
as % of sales		*15.1%*	*14.1%*
EBIT (Food and Beverages)		6 653	6 013
as % of sales (Food and Beverages)		*13.0%*	*12.4%*
Profit for the period attributable to shareholders of the parent (Net profit)		5 450	5 071
as % of sales		*9.8%*	*9.7%*
Capital expenditure		1 409	1 521
as % of sales		*2.5%*	*2.9%*
Equity attributable to shareholders of the parent, end June		42 012	50 361
Market capitalisation, end June		176 410	146 688
Operating cash flow		5 769	6 431
Free cash flow [a]		3 252	4 420
Net financial debt [b]		29 650	17 449
Per share			
Total basic earnings per share	CHF	1.60	1.41
Total fully diluted earnings per share	CHF	1.59	1.40
Equity attributable to shareholders of the parent, end June	CHF	12.30	13.98

[a] Includes operating cash flow, cash flow from investing activities and dividends paid to non-controlling interests, and excludes acquisition and disposal of businesses.
[b] 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 2010	January–June 2009
Sales		50 997	46 233
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments		7 725	6 531
Profit for the period attributable to shareholders of the parent (Net profit)		5 022	4 486
Equity attributable to shareholders of the parent, end June		38 794	46 650
Market capitalisation, end June		162 898	135 879
Per share			
Total basic earnings per share	USD	1.47	1.25
Equity attributable to shareholders of the parent, end June	USD	11.36	12.95

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 2010	January–June 2009
Sales		38 547	34 701
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments		5 839	4 902
Profit for the period attributable to shareholders of the parent (Net profit)		3 796	3 367
Equity attributable to shareholders of the parent, end June		31 737	33 029
Market capitalisation, end June		133 266	96 204
Per share			
Total basic earnings per share	EUR	1.11	0.94
Equity attributable to shareholders of the parent, end June	EUR	9.29	9.17

Principal exchange rates

CHF per		June 2010	December 2009	June 2009	January–June 2010	January–June 2009
			Ending rates		Weighted average rates	
1 US Dollar	USD	1.083	1.031	1.080	1.085	1.131
1 Euro	EUR	1.324	1.486	1.525	1.436	1.506
1 Pound Sterling	GBP	1.630	1.663	1.806	1.650	1.682
100 Brazilian Reais	BRL	59.924	59.220	55.248	60.339	51.663
100 Japanese Yen	JPY	1.222	1.119	1.131	1.188	1.179
100 Mexican Pesos	MXN	8.435	7.877	8.206	8.553	8.170
1 Canadian Dollar	CAD	1.031	0.982	0.937	1.056	0.941
1 Australian Dollar	AUD	0.925	0.928	0.878	0.968	0.804
100 Philippine Pesos	PHP	2.332	2.231	2.245	2.368	2.367
100 Chinese Yuan Renminbi	CNY	15.951	15.101	15.802	15.861	16.547

Consolidated income statement for the period ended 30 June 2010

In millions of CHF	Notes	Continuing operations	Discontinued operations [a]	Total	Continuing operations	Discontinued operations [a]	Total
		January–June 2010			January–June 2009		
Sales	3	**51 429**	**3 915**	**55 344**	**48 683**	**3 584**	**52 267**
Cost of goods sold		(21 725)	(816)	(22 541)	(21 351)	(863)	(22 214)
Distribution expenses		(4 174)	(93)	(4 267)	(4 123)	(92)	(4 215)
Marketing and administration expenses		(18 156)	(970)	(19 126)	(16 488)	(996)	(17 484)
Research and development costs		(669)	(357)	(1 026)	(660)	(311)	(971)
EBIT Earnings Before Interest, Taxes, restructuring and impairments	3	**6 705**	**1 679**	**8 384**	**6 061**	**1 322**	**7 383**
Other income	5	82	63	145	146	–	146
Other expenses	5	(383)	(31)	(414)	(305)	(43)	(348)
Profit before interest and taxes		**6 404**	**1 711**	**8 115**	**5 902**	**1 279**	**7 181**
Financial income		34	16	50	41	32	73
Financial expense		(453)	(12)	(465)	(383)	(11)	(394)
Profit before taxes and associates		**5 985**	**1 715**	**7 700**	**5 560**	**1 300**	**6 860**
Taxes		(1 702)	(296)	(1 998)	(1 498)	(148)	(1 646)
Share of results of associates	6	599	–	599	521	–	521
Profit for the period		**4 882**	**1 419**	**6 301**	**4 583**	**1 152**	**5 735**
of which attributable to non-controlling interests		169	682	851	114	550	664
of which attributable to shareholders of the parent (Net profit)		4 713	737	5 450	4 469	602	5 071
As percentages of sales							
EBIT Earnings Before Interest, Taxes, restructuring and impairments		13.0%	42.9%	15.1%	12.4%	36.9%	14.1%
Profit for the period attributable to shareholders of the parent (Net profit)				9.8%			9.7%
Earnings per share (in CHF)							
Basic earnings per share		1.38	0.22	1.60	1.24	0.17	1.41
Fully diluted earnings per share		1.37	0.22	1.59	1.23	0.17	1.40

[a] Detailed information related to Alcon discontinued operations is disclosed in Note 9.

Consolidated statement of comprehensive income for the period ended 30 June 2010

In millions of CHF	January–June 2010	January–June 2009
Profit for the period recognised in the income statement	**6 301**	**5 735**
Currency retranslations	505	1 605
Fair value adjustments on available-for-sale financial instruments		
– Unrealised results	114	(84)
– Recognition of realised results in the income statement	5	2
Fair value adjustments on cash flow hedges		
– Recognised in hedging reserve	(244)	30
– Removed from hedging reserve	32	142
Actuarial gains/(losses) on defined benefit schemes	(1 920)	(360)
Share of other comprehensive income of associates	73	(311)
Taxes	503	(121)
Other comprehensive income for the period	**(932)**	**903**
Total comprehensive income for the period	**5 369**	**6 638**
of which attributable to non-controlling interests	921	731
of which attributable to shareholders of the parent	4 448	5 907

Consolidated balance sheet as at 30 June 2010

In millions of CHF	Notes	30 June 2010	31 December 2009	30 June 2009
Assets				
Current assets				
Cash and cash equivalents		2 451	2 734	6 031
Short term investments		2 690	2 585	1 560
Inventories		8 748	7 734	9 835
Trade and other receivables		12 499	12 309	14 013
Prepayments and accrued income		925	589	828
Derivative assets		1 417	1 671	1 479
Current income tax assets		925	1 045	590
Assets held for sale	9	11 787	11 203	23
Total current assets		**41 442**	**39 870**	**34 359**
Non-current assets				
Property, plant and equipment		21 774	21 599	21 936
Goodwill		30 171	27 502	31 462
Intangible assets		8 430	6 658	6 912
Investments in associates		8 046	8 693	7 844
Financial assets		4 530	4 162	3 893
Employee benefits assets		183	230	80
Deferred tax assets		2 724	2 202	2 748
Total non-current assets		**75 858**	**71 046**	**74 875**
Total assets		**117 300**	**110 916**	**109 234**

In millions of CHF	Notes	30 June 2010	31 December 2009	30 June 2009
Liabilities and equity				
Current liabilities				
Financial debt		26 810	14 438	16 669
Trade and other payables		12 955	13 033	12 044
Accruals and deferred income		2 788	2 779	2 903
Provisions		413	643	478
Derivative liabilities		704	1 127	1 611
Current income tax liabilities		1 358	1 173	813
Liabilities directly associated with assets held for sale	9	2 856	2 890	5
Total current liabilities		**47 884**	**36 083**	**34 523**
Non-current liabilities				
Financial debt		7 981	8 966	8 371
Employee benefits liabilities		7 836	6 249	5 761
Provisions		3 577	3 222	3 319
Deferred tax liabilities		1 482	1 404	1 401
Other payables		1 495	1 361	1 251
Total non-current liabilities		**22 371**	**21 202**	**20 103**
Total liabilities		**70 255**	**57 285**	**54 626**
Equity				
Share capital	7	347	365	365
Treasury shares		(4 345)	(8 011)	(2 494)
Translation reserve		(10 753)	(11 175)	(9 550)
Retained earnings and other reserves		56 763	67 736	62 040
Total equity attributable to shareholders of the parent		**42 012**	**48 915**	**50 361**
Non-controlling interests		5 033	4 716	4 247
Total equity		**47 045**	**53 631**	**54 608**
Total liabilities and equity		**117 300**	**110 916**	**109 234**

Consolidated cash flow statement for the period ended 30 June 2010

In millions of CHF	Notes	January–June 2010	January–June 2009
Operating activities			
Profit for the period		6 301	5 735
Non-cash items of income and expense	10	1 362	1 574
Decrease/(increase) in working capital		(2 111)	(1 356)
Variation of other operating assets and liabilities		217	478
Operating cash flow [(a)]		**5 769**	**6 431**
Investing activities			
Capital expenditure		(1 409)	(1 521)
Expenditure on intangible assets		(276)	(182)
Sale of property, plant and equipment		58	68
Acquisitions of businesses	8	(4 378)	(151)
Disposals of businesses	8	86	53
Cash flows with associates		335	344
Other investing cash flows		(552)	(70)
Cash flow from investing activities [(a)]		**(6 136)**	**(1 459)**
Financing activities			
Dividend paid to shareholders of the parent	7	(5 443)	(5 047)
Purchase of treasury shares		(5 519)	(1 544)
Sale of treasury shares		128	157
Cash flows with non-controlling interests		(673)	(650)
Bonds issued	11	1 267	2 997
Bonds repaid	11	(1 068)	(1 122)
Inflows from other non-current financial debt		66	94
Outflows from other non-current financial debt		(168)	(47)
Inflows/(outflows) from current financial debt		10 927	448
Inflows/(outflows) from short-term investments		(142)	(204)
Cash flow from financing activities [(a)]		**(625)**	**(4 918)**
Currency retranslations		103	142
Increase/(decrease) in cash and cash equivalents		**(889)**	**196**
Cash and cash equivalents at beginning of year [(b)]		5 825	5 835
Cash and cash equivalents at end of period [(b)]		**4 936**	**6 031**

(a) Detailed information related to Alcon discontinued operations is disclosed in Note 9.
(b) Include cash and cash equivalents related to Alcon discontinued operations classified as held for sale.

Consolidated statement of changes in equity for the period ended 30 June 2010

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 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
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**

[a] Movement reported under retained earnings mainly relates to written put options on own shares, which expire before year end.
[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 2010. 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 2009.

The accounting conventions and accounting policies are the same as those applied in the Consolidated Financial Statements for the year ended 31 December 2009, except for those mentioned below, in the section Changes in accounting policies.

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 2009.

Changes in accounting policies

The Group has applied the following revised International Financial Reporting Standard (IFRS) and International Accounting Standard (IAS) as from 1 January 2010 onwards.

These changes have been applied prospectively, and none of them had a material impact on the Interim Financial Statements.

IFRS 3 Revised 2008 – Business Combinations

The revised standard has resulted in the following changes:

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

IAS 27 Revised 2008 – Consolidated and separate financial statements

Changes of non-controlling interests of an acquiree that do not result in a change of control are accounted for as transactions with equity holders.

Improvements and other amendments of IFRSs/IASs

Improvements or other amendments effective in 2010 (for example, the amendment to IAS 18 – Revenue recognition on determining whether an entity is acting as a principal or as an agent) have been incorporated in the Group accounting policies.

2. Modification of the scope of consolidation

During the interim period, the scope of consolidation has been affected by acquisitions and disposals. The principal business acquired is detailed below. There were no other major acquisitions or disposals for this interim period.

Fully consolidated

Newly included

Kraft Foods' frozen pizza business, USA and Canada, Prepared dishes and cooking aids, 100% (March).

3. Analysis by segment

Operating segments

In millions of CHF

		Zone Europe	Zone Americas	Zone Asia, Oceania and Africa	Nestlé Waters
January–June 2009	**Sales**	10 791	15 197	7 733	4 723
	EBIT Earnings Before Interest, Taxes, restructuring and impairments	1 273	2 307	1 292	392
	Impairment of assets	(29)	–	(1)	(9)
	Restructuring costs	(62)	(25)	(8)	(16)
	Net other income/(expenses) excluding restructuring and impairments				
	Net financing cost				
	Profit before taxes and associates				
January–June 2010	**Sales**	10 692	16 302	8 598	4 731
	EBIT Earnings Before Interest, Taxes, restructuring and impairments	1 272	2 457	1 450	398
	Impairment of assets	(25)	(2)	(1)	(4)
	Restructuring costs	(50)	(19)	(6)	(9)
	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) Detailed information related to Alcon discontinued operations is disclosed in Note 9.

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

3. Analysis by segment (continued)

Nestlé Nutrition	Other Food and Beverages [a]	Unallocated items [b]	Total Food and Beverages	Pharma	Total continuing operations	Pharma discontinued operations [c]	Total	
4 995	4 874		48 313	370	48 683	3 584	52 267	January–June 2009
869	786	(906)	6 013	48	6 061	1 322	7 383	
(1)	–	–	(40)	–	(40)	(21)	(61)	
(8)	(7)	–	(126)	(1)	(127)	(22)	(149)	
					8	–	8	
					(342)	21	(321)	
					5 560	1 300	6 860	
5 251	5 429		51 003	426	51 429	3 915	55 344	January–June 2010
997	1 009	(930)	6 653	52	6 705	1 679	8 384	
(2)	–	–	(34)	–	(34)	–	(34)	
(7)	(2)	–	(93)	–	(93)	(1)	(94)	
					(174)	33	(141)	
					(419)	4	(415)	
					5 985	1 715	7 700	

3. Analysis by segment (continued)

Products

In millions of CHF

		Powdered and Liquid Beverages	Water	Milk products and Ice cream	Nutrition
January–June 2009	**Sales**	9 242	4 726	9 628	4 997
	EBIT Earnings Before Interest, Taxes, restructuring and impairments	2 016	393	1 057	869
	Impairment of assets	(2)	(9)	(6)	(1)
	Restructuring costs	(22)	(16)	(35)	(8)
	Net other income/(expenses) excluding restructuring and impairments				
	Net financing cost				
	Profit before taxes and associates				
January–June 2010	**Sales**	10 112	4 735	10 126	5 253
	EBIT Earnings Before Interest, Taxes, restructuring and impairments	2 223	399	1 168	998
	Impairment of assets	(1)	(4)	(2)	(2)
	Restructuring costs	(13)	(9)	(23)	(7)
	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] Detailed information related to Alcon discontinued operations is disclosed in Note 9.

3. Analysis by segment (continued)

Prepared dishes and cooking aids	Confectionery	PetCare	Unallocated items [a]	Total Food and Beverages	Pharmaceutical products	Total continuing operations	Pharma discontinued operations [b]	Total	
8 221	5 118	6 381		48 313	370	48 683	3 584	52 267	January–June 2009
1 003	576	1 005	(906)	6 013	48	6 061	1 322	7 383	
(5)	(17)	–	–	(40)	–	(40)	(21)	(61)	
(24)	(17)	(4)	–	(126)	(1)	(127)	(22)	(149)	
						8	–	8	
						(342)	21	(321)	
						5 560	1 300	6 860	
8 753	5 497	6 527		51 003	426	51 429	3 915	55 344	January–June 2010
987	658	1 150	(930)	6 653	52	6 705	1 679	8 384	
(7)	(16)	(2)	–	(34)	–	(34)	–	(34)	
(20)	(19)	(2)	–	(93)	–	(93)	(1)	(94)	
						(174)	33	(141)	
						(419)	4	(415)	
						5 985	1 715	7 700	

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 2010	January–June 2009 [a]
Profit on disposal of property, plant and equipment	24	26
Other	58	120
Other income	**82**	**146**
Restructuring costs	(93)	(127)
Impairment of assets	(34)	(40)
Other [b]	(256)	(138)
Other expenses	**(383)**	**(305)**
Net other income/(expenses) of continuing operations	**(301)**	**(159)**
Net other income/(expenses) of discountinued operations [a]	32	(43)
Total net other income/(expenses)	**(269)**	**(202)**

[a] 2009 comparatives have been restated to disclose the discontinued operations separately from the continuing operations. Detailed information related to Alcon discontinued operations is disclosed in Note 9.
[b] It relates to loss on disposal of property, plant, equipment and businesses, acquisition-related costs (Note 8), numerous separate legal cases (for example labour, civil and tax litigations) and other items that are individually not significant.

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. 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 23 April 2009 and 15 April 2010. In 2009, the share capital was reduced by 180 000 000 shares from CHF 383 million to CHF 365 million. In 2010, the share capital was further reduced by 185 000 000 shares from CHF 365 million to CHF 347 million.

At 30 June 2010, the share capital of Nestlé S.A. is composed of 3 465 000 000 of registered shares with a nominal value of CHF 0.10 each.

Dividend

The dividend related to 2009 was paid on 22 April 2010 in conformity with the decision taken at the Annual General Meeting on 15 April 2010. Shareholders approved the proposed dividend of CHF 1.60 per share, resulting in a total dividend of CHF 5443 million.

8. Acquisitions and disposals of businesses

Acquisitions

Kraft Foods' frozen pizza acquisition

On 1 March 2010, the Group acquired the Kraft Foods' frozen pizza business in the USA and Canada. This acquisition will enhance Nestlé's frozen food activities in North America, where the Group has already established a leadership in prepared dishes and hand-held product categories.

The fair value of net assets acquired and consideration transferred amounted to:

In millions of CHF	Kraft Foods' Pizza
Property, plant and equipment	286
Intangible assets [a]	1 859
Inventories and other assets	114
Employee benefits, deferred taxes and provisions	(35)
Other liabilities	(4)
Fair value of net assets acquired	**2 220**
Goodwill	1 757
Fair value of consideration transferred	**3 977**
Cash and cash equivalents acquired	–
Cash outflow on Kraft Foods' frozen pizza acquisition	**3 977**

[a] Mainly brands and intellectual property rights.

The goodwill arising on this acquisition includes elements that cannot be recognised as intangible assets such as synergies, complementary market share and competitive position. The goodwill is amortisable for tax purposes.

8. Acquisitions and disposals of businesses (continued)

Sales and profit for the period of Kraft Foods' frozen pizza business included in the 2010 Interim Financial Statements amount respectively to CHF 591 million and CHF 63 million. The Group's total sales and profit for the period would have respectively amounted to CHF 55 734 million and CHF 6340 million if the acquisition had been effective 1 January 2010.

Other acquisitions

There were other cash outflows in the first six months of 2010 related to several small acquisitions. Cash outflows of the comparative period also included several small acquisitions. The Group's sales and profit for the period are not significantly impacted by them.

Valuation

Since the valuation of the assets and liabilities of recently acquired businesses is still in process, the values are determined provisionally. The carrying amounts of assets and liabilities determined in accordance with IFRSs immediately before the combinations do not differ significantly from those disclosed above, except for internally generated intangible assets and goodwill which were not recognised.

Acquisition-related costs

2010 acquisition-related costs have been recognised under other expenses in the income statement (Note 5) for an amount of CHF 13 million.

Disposals

Cash inflows recognised in the first six months of 2010 and 2009 are related to several small disposals. The Group's sales and profit for the period are not significantly impacted by them.

9. Discontinued operations – Alcon

On 4 January 2010, Novartis exercised its call option to acquire the remaining 52% of Alcon outstanding capital from Nestlé, at a price of USD 181.– per share. The transaction is now pending regulatory approval which can be expected during the second semester of 2010.

In accordance with IFRS 5, Alcon's related assets and liabilities were classified as a disposal group in Assets held for sale and Liabilities directly associated with assets held for sale as at 31 December 2009. Consequently, the depreciation and amortisation of non-current assets have been stopped as from 1 January 2010. The impact on EBIT for the first six-month period of 2010 amounts to CHF 139 million.

Additionally, Alcon operations are presented separately in the income statement as discontinued operations.

9. Discontinued operations – Alcon (continued)

The main elements of the cash flow of Alcon discontinued operations are as follows:

In millions of CHF	January–June 2010	January–June 2009
Cash flow from discontinued operations		
Operating cash flow	1 409	1 269
Cash flow from investing activities	(673)	(277)
Cash flow from financing activities	(1 509)	(1 197)

The assets held for sale and liabilities directly associated with assets held for sale related to the Alcon discontinued operation are the following:

In millions of CHF	30 June 2010	31 December 2009
Cash, cash equivalents and short-term investments	3 138	3 585
Inventories	646	645
Trade and other receivables	1 594	1 447
Property, plant and equipment	1 439	1 300
Goodwill and intangible assets	3 743	3 256
Other assets	1 211	959
Assets held for sale	**11 771**	**11 192**
Financial debt	(368)	(676)
Trade and other payables	(569)	(580)
Employee benefits and provisions	(696)	(686)
Other liabilities	(1 223)	(948)
Liabilities directly associated with assets held for sale	**(2 856)**	**(2 890)**
Net assets held for sale from discontinued operations	**8 915**	**8 302**

The cumulative income or expense recognised in other comprehensive income related to Alcon discontinued operations is as follows:

In millions of CHF	30 June 2010	31 December 2009
Currency retranslations, net of taxes	(692)	(858)
Fair value adjustments on available-for-sale financial instruments, net of taxes	1	16
Actuarial gains/(losses) on defined benefit schemes, net of taxes	(68)	(66)
Cumulative income or expense recognised in other comprehensive income	**(759)**	**(908)**

10. Non-cash items of income and expense

In millions of CHF	January–June 2010	January–June 2009
Share of results of associates	(599)	(521)
Depreciation of property, plant and equipment [a]	1 297	1 348
Impairment of assets	34	61
Amortisation of intangible assets	329	321
Net result on disposal of businesses	(22)	(5)
Net result on disposal of assets	9	(74)
Non-cash items in financial assets and liabilities	115	212
Deferred taxes	(413)	227
Taxes in other comprehensive income and equity	503	(121)
Equity compensation plans	109	126
	1 362	**1 574**

[a] Including the positive impact of no longer being allowed to depreciate the Alcon assets held for sale in 2010 by IFRS 5 (Note 9).

11. Bonds

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

In millions of CHF — January–June 2010

Issuer	Face value in millions	Coupon	Effective interest rates	Year of issue/ maturity	Comments	Carrying amount
New issues						
Nestlé Holdings, Inc., USA	USD 550	2.13%	2.13%	2010–2014		597
Nestlé Finance International Ltd., Luxembourg	AUD 450	5.75%	5.82%	2010–2014	(a)	443
	NOK 1250	2.50%	2.73%	2010–2014	(a)	227
Total new issues						**1 267**
Repayments						
Nestlé Holdings, Inc., USA	CHF 625	2.75%	2.69%	2007–2010	(a)	594
	NOK 1500	4.75%	5.16%	2007–2010	(a)	275
	AUD 300	6.00%	6.36%	2006–2010	(a)	254
	NZD 100	8.25%	8.53%	2008–2010	(a)	87
	HUF 10000	6.88%	7.20%	2007–2010	(a)	56
Other					(b)	(198)
Total repayments						**1 068**

[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.

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.

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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 2010
Announcement of nine months 2010 sales figures

17 February 2011
2010 Full Year Results; press conference

14 April 2011
144th Annual General Meeting, “Palais de Beaulieu”, Lausanne