Half-Yearly Report

Nestlé

Good Food, Good Life

January – June 2008

www.nestle.com

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Overview

Paul Bulcke, CEO of Nestlé: "These figures build on the strong momentum gathered from last year's milestone results. Nestlé's drive to become the world's recognised leader in nutrition, health and wellness, its strong billionaire brands and its focus on speed and discipline in execution have allowed the company to further accelerate its performance under difficult economic conditions. I am therefore confident that 2008 will be another year of delivering the Nestlé model, with organic growth at least at the 2007 level and a further improvement in EBIT margins. Our Food and Beverages business will be the key driver of this profitable growth."

Group sales, profitability and financial position

In the first six months of 2008, consolidated sales of the Nestlé Group amounted to CHF 53.1 billion, an increase of 3.8% over the same period last year, driven by **organic growth** of 8.9%, including real internal growth of 3.5%. Foreign exchange had a –8.3% impact on sales, while acquisitions net of divestitures, primarily driven by the acquisition of Novartis Medical Nutrition and Gerber, added 3.2% to sales.

The Group's **EBIT** grew by 6.1% to CHF 7.3 billion, resulting in an **EBIT margin** of 13.8%. This represents a 60 basis point improvement in constant currencies over the first half of 2007. Foreign exchange reduced the Group's EBIT margin by 30 basis points, to 30 basis points reported.

With sales of CHF 49.3 billion, Food and Beverages achieved organic growth of 8.9%, including real internal growth of 3.2%, and was the Group's main contributor to growth and EBIT margins. With an EBIT growth of 6.7%, Food and Beverages' EBIT margin was up 50 basis points in constant currencies over last year. Foreign exchange reduced Food and Beverages' EBIT margin by 20 basis points, to 30 basis points reported.

The Group's **cost of goods sold** increased by 190 basis points to 42.8% of sales. This reflects the impact of higher raw material costs, partially reduced by operating efficiencies. **Marketing and administration costs** declined by 190 basis points to 33.3% of sales, reflecting the effect of different growth rates of the company's product portfolio, efficiencies and the leverage effect from growth. In constant currencies, consumer marketing spend increased by 7%.

Net profit grew by 6.1% to CHF 5.2 billion, resulting in a net margin of 9.8%, up 20 basis points. Earnings per share grew by 8.6% to CHF 1.39.

On 30 June 2008, the Group's **operating cash flow** stood at CHF 3.5 billion. This is lower than last year reflecting a higher level of inventories as a result of the increased cost of certain raw materials and the decision to selectively increase inventories of some products. The Group's **net debt,** seasonally high at the half year, rose to CHF 25.8 billion. This will decline to below the level prevailing at the end of 2007, thanks partly to the proceeds received from the sale of 24.8% of Alcon to Novartis.

This performance, above-target organic growth combined with a good improvement in EBIT margins, demonstrates Nestlé's ability to grow profitably even in a difficult business environment.

Share Buy-Back Programme

The Share Buy-Back Programme is accelerating and the Group expects to spend around CHF 9 billion on buying back its own shares in 2008, an increase of about CHF 2 billion compared to the original plan. By the end of the year, approximately CHF 13 billion of the CHF 25 billion Share Buy-Back Programme announced a year ago will have been completed.

Sales and EBIT margins by management responsibility

In the first half of 2008, the organic growth of Nestlé's total Food and Beverages business was stronger than last year in each of the three geographic regions: 5.2% in **Europe,** 9.9% in the **Americas** and 14.2% in **Asia, Oceania and Africa.** This performance reflects the success of the Group's nutrition, health and wellness strategy, as well as its focus on particular geographic and consumer segments through, for example, Popularly Positioned Products (PPPs) and premiumisation. These figures include the Zones, globally-managed businesses such as Nestlé Waters, Nestlé Nutrition, Nespresso, as well as the Food and Beverages joint ventures.

Zone Europe: sales of CHF 13.8 billion, 5.8% organic growth and 2.3% real internal growth. Western European markets such as Great Britain, France, Germany and the Iberian region achieved good organic growth, while the Zone experienced double-digit organic growth in Eastern Europe, particularly in Russia and Poland. Overall, soluble coffee, Confectionery, PetCare and culinary products were among the stronger categories. The Zone's 30 basis points improvement in EBIT margin was mainly driven by profitable growth and operational efficiencies.

Zone Americas: sales of CHF 15.1 billion, 11% organic growth and 3% real internal growth. There were good performances across the Zone, with both North and Latin America experiencing strong organic growth. Shelf-stable dairy, soluble coffee, ready-to-drink beverages, biscuits and PetCare did particularly well. The timely implementation of price increases in categories most impacted by higher input costs and the strong innovation pipeline contributed to the 40 basis points EBIT margin improvement.

Zone Asia, Oceania and Africa: sales of CHF 8.4 billion, 13.1% organic growth and 4.5% real internal growth. All the Zone's major emerging markets such as Greater China, Africa, South Asia and the Middle East grew strongly. Shelf-stable milk products, soluble coffee, powdered beverages, culinary products and PetCare did particularly well. In spite of higher cost pressures, the Zone's EBIT margin was unchanged as a result of good growth, efficiency improvements and pricing.

Nestlé Waters: sales of CHF 5.0 billion, –1.1% organic growth and –3.1% real internal growth. This performance reflects a slowdown in the bottled water category in large markets such as western Europe and North America due to a combination of difficult economic conditions and perceived environmental issues around bottled water. Nestlé Waters' increasingly-important emerging market businesses continued to achieve organic growth above 20%. The two billionaire brands, *Poland Spring* and *Nestlé Pure Life*, achieved positive growth. The EBIT margin fell by 210 basis points. The impact of lower sales was compounded by a significant increase in the two main costs, PET and distribution, due to high oil prices. The Group expects Nestlé Waters' organic growth to improve by the end of the year. Nestlé sees huge growth potential for its water business in different parts of the world and the healthy hydration provided by bottled water ideally fits the company's nutrition, health and wellness strategy.

Nestlé Nutrition: sales of CHF 5.2 billion, 11.1% organic growth and 5.5% real internal growth. These figures are in line with the business' long-term organic growth target of 10%. Strong performances were achieved in infant formula and infant cereals, supported by a highly productive innovation and renovation pipeline, as well as in healthcare nutrition. *Jenny Craig* returned to a sustainable level of organic growth after an outstanding start to the year. The performance of the recent acquisitions of Gerber and Novartis Medical Nutrition is exceeding acquisition assumptions. The EBIT margin was down 20 basis points to 18.5% due to the anticipated dilutive impact of the two acquisitions. However, the EBIT margin trend of Nestlé Nutrition's base business continued to improve.

Other Food and Beverage: sales of CHF 1.9 billion, 23.3% organic growth and 20.3% real internal growth. Nespresso, Cereal Partners Worldwide and Beverage Partners Worldwide all performed well. Nespresso's first half sales exceeded CHF 1 billion for the first time. This segment's EBIT margin was 20.4%, up 150 basis points, with improvements from all businesses.

Sales and EBIT margins by product groups

Powdered and Liquid Beverages: sales of CHF 9.0 billion, 14% organic growth and 9.4% real internal growth. All categories within the product group achieved double-digit organic growth with mid to high single-digit real internal growth. With over a million machines sold, the roll-out of *Nescafé Dolce Gusto* continued to make good progress. Health-focused offerings such as *Nescafé Body Partner* and *Nescafé Protect* sold mainly in Asian markets showed good results, as did single-serve sachets and refill packs in emerging markets. *Nespresso* continued to grow by close to 40%. There was also double-digit growth from the four other billionaire brands *Nescafé*, *Nestea*, *Milo* and *Nesquik*, benefiting from renovation and health-focused relaunches. The EBIT margin improved by 20 basis points, in spite of increasing input costs.

Milk products and Ice cream: sales of CHF 10.3 billion, 12% organic growth and 1.8% real internal growth. Milk products achieved double-digit organic growth in all Zones based on good real internal growth combined with timely pricing. The *CoffeeMate* billionaire brand, now present in over 50 markets, performed extremely well. Ice cream's organic growth was impacted by weaker market conditions in North America and Europe. The super-premium portfolio performed well with innovations such as *Häagen Dazs Hunny Bee* in the US, *Heaven* in Australia and *Création* by *Mövenpick of Switzerland*, as did health-focused offerings such as *Skinny Cow* in the US. The total category's EBIT margin was up 70 basis points due to the strong organic growth of higher value-added products and continued focus on efficiencies.

Prepared dishes and cooking aids: sales of CHF 8.6 billion, 5.4% organic growth and 0.9% real internal growth. Ambient culinary products enjoyed strong organic growth in all three zones, especially under the *Maggi* brand which did particularly well in Asia and Eastern Europe. Frozen food was somewhat slow in the US, while in Europe the *Wagner* and *Buitoni* pizza businesses achieved good performances. The category's EBIT margin declined by 70 basis points, reflecting slow volume development in the US and input cost pressures.

Confectionery: sales of CHF 5.4 billion, 7.7% organic growth and 1.7% real internal growth. The successful *KitKat* relaunch in Western Europe continued and the brand showed good performances in emerging markets such as India, the Middle East and Russia, achieving 15.4% organic growth globally. Increasing consumer interest in nutritious snacking alternatives resulted in new product launches such as *Nesquik* bars with added calcium in Mexico, Chile and Turkey. The UK business performed well due to its focus on key brands and the benefit of restructuring at the York factory. The category's EBIT margin improved across all zones, with an increase of 180 basis points.

PetCare: sales of CHF 5.9 billion, 10.9% organic growth and 5.4% real internal growth. Organic growth continued to be driven by new product launches and increasing focus on premium and super-premium segments. Top performing brands included *Beneful*, *Bakers*, *Cat Chow*, *Gourmet* and *Fancy Feast*. The category's EBIT margin decreased by 40 basis points, reflecting the timing of launch expenses and input cost pressures.

Pharmaceutical Products: sales of CHF 3.7 billion, 9.6% organic growth and 8.5% real internal growth. The EBIT margin improved by 90 basis points, mainly due to strong growth, operational efficiencies and a positive product mix.

Strategic focus

Four core growth platforms

Nestlé, the world's leading nutrition, health and wellness company, is particularly focused on four core growth platforms. The first is nutrition, covering not only Nestlé Nutrition, the world's largest specialised nutrition company, but also Nestlé's entire product portfolio with the aim of ensuring that its brands offer the best nutritional profile of their respective categories. The second is out-of-home, where the focus is both on branded beverage solutions and customised food solutions for restaurants and institutions. The third is Popularly Positioned Products (PPPs), affordable nutritional products for emerging consumers. The fourth is the increasing focus of many product groups on premium and luxury segments. These four core platforms often overlap.

Nutrition, Health and Wellness

Nestlé Nutrition continues to do well based on its four growth platforms: infant nutrition, healthcare nutrition, performance nutrition and personalised weight management. The Group will continue to leverage Nestlé Nutrition's specific R&D know-how in its overall food and beverage business. Indeed, the transformation of Nestlé's product portfolio continues unabated. In the innovation and renovation process, any new product launched must obtain a consumer preference of at least 60% in blind tasting and a higher nutritional profile compared to its nearest competitor. Products enriched with Branded Active Benefits (BABs) again achieved double-digit organic growth in the first half of 2008. The objective is that around 20% of Nestlé's product portfolio is renovated each year.

Out-of-home

Nestlé Professional continued to refocus its activities on branded beverage solutions and customised food solutions, as well as pursuing a significant SKU rationalisation programme. The priority areas within Nestlé Professional performed well, and its business in Asia, Oceania and Africa grew strongly, with double-digit organic growth in markets such as China, India and South East Asia.

Popularly Positioned Products (PPPs)

PPPs, an integrated business model to reach out to emerging consumers in the developing world, continued to grow strongly in the first half. Nestlé's PPPs, such as dairy and cereal products, beverages and culinary products, enjoyed organic growth of over 20% overall. They grew by 40% in Zone Asia, Oceania and Africa, and also enjoyed good performances in Zone Americas and Europe. This positive trend is set to continue, as consumers migrate to Nestlé's PPPs offering quality, taste and nutritional content at affordable prices.

Premiumisation

The premium and luxury end of the market offers strong growth opportunities for Nestlé and is proving particularly resilient. The premium segment of most categories performed well, including the most visible examples such as *Nespresso*, which enjoyed organic growth of almost 40%, and different brands in Confectionery (*Perugina*, *Nestlé Noir*), Ice cream (*Häagen Dazs*, *Mövenpick of Switzerland*), water (*S. Pellegrino*) and PetCare (*Beneful*, *Gourmet*).

Outlook

In the first half of 2008, Nestlé's organic growth was stronger than last year in each of the three geographic regions. These performances, mirrored by strong results in the product groups, together with a positive overall development of EBIT margins, demonstrate that Nestlé is resilient and able to create opportunities for profitable growth even in challenging economic times. Indeed, the excellent first half of 2008 supports the statement made in February that Nestlé's success is increasingly driven by its capacity to innovate and use its R&D pipeline to launch new, added-value products and services in line with its nutrition, health and wellness strategy.

Nestlé's strong emphasis on speed and excellence in execution, as well as continuing momentum, will deliver profitable growth in the second half of 2008 and beyond. In view of its first half performance, Nestlé foresees organic growth at least at the 2007 level for the full year, clearly above the company's long-term target, together with an improvement in EBIT margin. 2008 will therefore be another year of delivering the Nestlé model.

Key figures (consolidated)

In millions of CHF (except for per share data)		January–June 2008	January–June 2007
Sales		53 066	51 114
EBITD Earnings Before Interest, Taxes, Depreciation, restructuring and impairments		8 935	8 519
as % of sales		*16.8%*	*16.7%*
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments		7 341	6 919
as % of sales		*13.8%*	*13.5%*
EBIT (Food and Beverages)		6 077	5 697
as % of sales (Food and Beverages)		*12.3%*	*12.0%*
Profit for the period attributable to shareholders of the parent Net profit		5 214	4 916
as % of sales		*9.8%*	*9.6%*
Capital expenditure		1 643	1 731
as % of sales		*3.1%*	*3.4%*
Equity attributable to shareholders of the parent, end June		46 233	53 799
Market capitalisation, end June		171 539	179 180
Operating cash flow		3 461	4 285
Free cash flow [(a)]		1 542	2 515
Net debt		25 806	13 402
Per share			
Total basic earnings per share	CHF	1.39	1.28
Total fully diluted earnings per share	CHF	1.39	1.26
Equity attributable to shareholders of the parent, end June	CHF	12.35	14.00

[(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 minority 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 2008	January–June 2007
Sales		50 620	41 692
EBITD Earnings Before Interest, Taxes, Depreciation, restructuring and impairments		8 524	6 948
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments		7 003	5 643
Profit for the period attributable to shareholders of the parent Net profit		4 974	4 010
Equity attributable to shareholders of the parent, end June		45 416	43 668
Market capitalisation, end June		168 506	145 438
Per share			
Total basic earnings per share	USD	1.33	1.04
Equity attributable to shareholders of the parent, end June	USD	12.13	11.36
In millions of EUR (except for per share data)			
Sales		33 050	31 320
EBITD Earnings Before Interest, Taxes, Depreciation, restructuring and impairments		5 565	5 220
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments		4 572	4 239
Profit for the period attributable to shareholders of the parent Net profit		3 247	3 012
Equity attributable to shareholders of the parent, end June		28 762	32 487
Market capitalisation, end June		106 717	108 200
Per share			
Total basic earnings per share	EUR	0.87	0.78
Equity attributable to shareholders of the parent, end June	EUR	7.68	8.45

Principal exchange rates

CHF per		June 2008	December 2007	June 2007	January–June 2008	January–June 2007
			Ending rates		Average rates	
1 US Dollar	USD	1.018	1.126	1.232	1.048	1.226
1 Euro	EUR	1.607	1.657	1.656	1.606	1.632
1 Pound Sterling	GBP	2.031	2.248	2.466	2.071	2.417
100 Brazilian Reais	BRL	63.825	63.200	63.980	61.941	60.040
100 Japanese Yen	JPY	0.964	1.005	0.998	0.998	1.022
100 Mexican Pesos	MXN	9.888	10.320	11.400	9.883	11.240
1 Canadian Dollar	CAD	1.010	1.151	1.165	1.038	1.090
1 Australian Dollar	AUD	0.981	0.991	1.047	0.971	0.994
100 Philippine Pesos	PHP	2.268	2.730	2.663	2.502	2.573

Consolidated income statement for the period ended 30 June 2008

In millions of CHF	Notes		January–June 2008		January–June 2007
Sales	1		**53 066**		**51 114**
Cost of goods sold			(22 697)		(20 881)
Distribution expenses			(4 457)		(4 433)
Marketing and administration expenses			(17 676)		(17 986)
Research and development costs			(895)		(895)
EBIT Earnings Before Interest, Taxes, restructuring and impairments	1		**7 341**		**6 919**
Net other income/(expenses)	3		(234)		(157)
Profit before interest and taxes			**7 107**		**6 762**
Net financing cost					
Financial income		100		396	
Financial expense		(637)		(687)	
			(537)		(291)
Profit before taxes and associates			**6 570**		**6 471**
Taxes			(1 591)		(1 742)
Share of results of associates	4		612		543
Profit for the period			**5 591**		**5 272**
of which attributable to minority interests			377		356
of which attributable to shareholders of the parent (Net profit)			5 214		4 916
As percentages of sales					
EBIT Earnings Before Interest, Taxes, restructuring and impairments			13.8%		13.5%
Profit for the period attributable to shareholders of the parent (Net profit)			9.8%		9.6%
Earnings per share from continuing operations (in CHF)					
Basic earnings per share [a]			1.39		1.28
Fully diluted earnings per share [a]			1.39		1.26

[a] 2007 comparatives have been restated following 1-for-10 share split (refer to Note 5).

Consolidated balance sheet as at 30 June 2008

In millions of CHF	Notes		30 June 2008		31 December 2007		30 June 2007
Assets							
Current assets							
Liquid assets							
Cash and cash equivalents		7 301		6 594		5 398	
Short term investments		2 671		2 902		5 260	
			9 972		9 496		10 658
Trade and other receivables			15 027		15 421		15 584
Assets held for sale			74		22		4
Inventories			10 534		9 272		9 422
Derivative assets			1 008		754		881
Prepayments and accrued income			851		805		805
Total current assets			**37 466**		**35 770**		**37 354**
Non-current assets							
Property, plant and equipment							
Gross value		47 418		49 474		49 006	
Accumulated depreciation and impairment		(26 528)		(27 409)		(27 991)	
			20 890		22 065		21 015
Investments in associates			7 668		8 936		8 276
Deferred tax assets			1 746		2 224		2 611
Financial assets			3 784		4 213		2 983
Employee benefits assets [(a)]	10		1 294		1 513		1 583
Goodwill			31 045		33 423		29 469
Intangible assets			7 014		7 217		4 012
Total non-current assets			**73 441**		**79 591**		**69 949**
Total assets			**110 907**		**115 361**		**107 303**

[(a)] 2007 comparatives have been restated following first application of IFRIC 14.

In millions of CHF	Notes	30 June 2008	31 December 2007	30 June 2007
Liabilities and equity				
Current liabilities				
Trade and other payables		12 558	14 179	12 307
Liabilities directly associated with assets held for sale		11	7	–
Financial liabilities		29 234	24 541	17 837
Tax liabilities		869	856	962
Derivative liabilities		543	477	625
Accruals and deferred income		3 230	3 266	3 336
Total current liabilities		**46 445**	**43 326**	**35 067**
Non-current liabilities				
Financial liabilities		6 544	6 129	6 223
Employee benefits liabilities		4 439	5 165	5 564
Deferred tax liabilities [a]	10	1 039	1 558	1 214
Other payables		944	1 091	410
Provisions		3 135	3 316	3 080
Total non-current liabilities		**16 101**	**17 259**	**16 491**
Total liabilities		**62 546**	**60 585**	**51 558**
Equity				
Share capital	5	383	393	393
Treasury shares		(5 147)	(8 013)	(3 355)
Translation reserve		(9 415)	(6 302)	(3 986)
Retained earnings and other reserves		60 412	66 549	60 747
Total equity attributable to shareholders of the parent [a]	10	**46 233**	**52 627**	**53 799**
Minority interests		2 128	2 149	1 946
Total equity		**48 361**	**54 776**	**55 745**
Total liabilities and equity		**110 907**	**115 361**	**107 303**

[a] 2007 comparatives have been restated following first application of IFRIC 14.

Consolidated cash flow statement for the period ended 30 June 2008

In millions of CHF	Notes	January–June 2008	January–June 2007
Operating activities [a]			
Profit for the period		5 591	5 272
Non-cash items of income and expense	6	1 259	1 206
Decrease/(increase) in working capital		(2 963)	(2 061)
Variation of other operating assets and liabilities		(426)	(132)
Operating cash flow		**3 461**	**4 285**
Investing activities			
Capital expenditure		(1 643)	(1 731)
Expenditure on intangible assets		(296)	(300)
Sale of property, plant and equipment		54	128
Acquisitions of businesses	7	(665)	(1 091)
Disposals of businesses	8	127	319
Cash flows with associates		349	306
Other investing cash flows		(101)	97
Cash flow from investing activities		**(2 175)**	**(2 272)**
Financing activities			
Dividend paid to shareholders of the parent	5	(4 573)	(4 004)
Purchase of treasury shares		(3 542)	(338)
Sale of treasury shares		144	381
Cash flows with minority interests		(282)	(173)
Bonds issued	9	1 923	1 656
Bonds repaid	9	(1 874)	(1 348)
Increase in other non-current financial liabilities		213	57
Decrease in other non-current financial liabilities		(45)	(66)
Increase/(decrease) in current financial liabilities		7 724	1 055
Decrease/(increase) in short-term investments		(22)	986
Other financing cash flows		–	1
Cash flow from financing activities		**(334)**	**(1 793)**
Currency retranslations		(245)	(100)
Increase/(decrease) in cash and cash equivalents		**707**	**120**
Cash and cash equivalents at beginning of year		6 594	5 278
Cash and cash equivalents at end of period		**7 301**	**5 398**

[a] Presentation was amended (refer to section Changes in presentation on page 15).

Consolidated statement of recognised income and expense and changes in equity for the period ended 30 June 2008

Statement of recognised income and expense [a]

In millions of CHF	January–June 2008	January–June 2007
Profit for the period recognised in the income statement	**5 591**	5 272
Currency retranslations	(3 252)	1 250
Fair value adjustments on available-for-sale financial instruments		
– Unrealised results	(228)	74
– Recognition of realised results in the income statement	8	(13)
Fair value adjustments on cash flow hedges		
– Recognised in hedging reserve	162	133
– Removed from hedging reserve	(18)	(35)
Actuarial gains/(losses) on defined benefit schemes [b]	(33)	131
Changes in equity of associates	(1 138)	(611)
Taxes on equity items [b]	63	(100)
Income and expense recognised directly in equity	**(4 436)**	829
Total recognised income and expense	**1 155**	6 101
of which attributable to minority interests	238	387
of which attributable to shareholders of the parent	917	5 714

[a] Presentation was amended (refer to section Changes in presentation on page 15).
[b] 2007 comparatives have been restated following first application of IFRIC 14.

Changes in equity

In millions of CHF	Share capital	Treasury shares	Translation reserve	Retained earnings and other reserves	Total equity attributable to shareholders of the parent	Minority interests	Total equity
January–June 2007							
Equity as at 31 December 2006 as reported last year	401	(4 644)	(5 205)	60 439	50 991	1 857	52 848
First application of IFRIC 14				793	793		793
Equity restated as at 31 December 2006	401	(4 644)	(5 205)	61 232	51 784	1 857	53 641
Total recognised income and expense			1 219	4 495	5 714	387	6 101
Dividend paid to shareholders of the parent				(4 004)	(4 004)		(4 004)
Dividends paid to minority interests					–	(278)	(278)
Movement of treasury shares (net)		146		53	199		199
Changes in minority interests					–	(36)	(36)
Equity compensation plans		4		102	106	16	122
Reduction in share capital	(8)	1 139		(1 131)	–		–
Equity as at 30 June 2007	393	(3 355)	(3 986)	60 747	53 799	1 946	55 745
January–June 2008							
Equity as at 31 December 2007 as reported last year	393	(8 013)	(6 302)	66 007	52 085	2 149	54 234
First application of IFRIC 14				542	542		542
Equity restated as at 31 December 2007	393	(8 013)	(6 302)	66 549	52 627	2 149	54 776
Total recognised income and expense			(3 113)	4 030	917	238	1 155
Dividend paid to shareholders of the parent				(4 573)	(4 573)		(4 573)
Dividends paid to minority interests					–	(313)	(313)
Movement of treasury shares (net) [a]		(2 622)		(266)	(2 888)		(2 888)
Changes in minority 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

[a] Includes Nestlé S.A. shares exchanged with warrants (refer to Note 9).

Annex

Basis of preparation

These financial statements are the unaudited interim consolidated financial statements for the six-month period ended 30 June 2008. They have been prepared in accordance with IAS 34 – Interim Financial Reporting and should be read in conjunction with the 2007 Consolidated Financial Statements.

Accounting policies

The accounting conventions and accounting policies are the same as those applied in the 2007 Consolidated Financial Statements, except for changes mentioned below.

Changes in accounting policies

IFRIC Interpretations

The Group has applied the following IFRIC as from 1 January 2008 onwards:

IFRIC 14 – IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

This interpretation requires to determine the availability of refunds or reductions in future contributions in accordance with the terms and conditions of the plans and the statutory requirements of the plans of the respective jurisdictions.

The retrospective application of IFRIC 14 impacted the 2007 Consolidated Financial Statements (refer to Note 10).

Changes in presentation

Equity

The Group has simplified the presentation of its equity. In line with the income statement, the statement of recognised income and expense discloses in aggregate the allocations to minority interests and shareholders of the parent (previously allocated for each movement). The statement of changes in equity presents the reserves "Share premium" and "Reserve for treasury shares" together with "Retained earnings." Additionally, all of the movements in respect of equity-settled share-based payment are disclosed together in the statement of changes in equity. Furthermore, the dividends paid to minority interests are shown separately from the other changes in minority interests (previously presented under "Movements with minority interests [net].")

Cash Flow Statement

The Group has enhanced the presentation of its cash flow statement. It presents all of the "Non-cash items of income and expense" in aggregate (previously presented individually or under "Other operating cash flows.") It also discloses separately the variation of the "Other operating assets and liabilities" (previously presented under "Increase/[decrease] in provisions and deferred taxes" and "Other operating cash flows.") These reclassifications have had no impact on the operating cash flow.

Changes in IFRSs that may affect the Group after 31 December 2008

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:

i. acquisition costs will be expensed,
ii. for a business combination in which the acquirer achieves control without buying all of the equity of the acquiree, the remaining (non-controlling) equity interests are measured either at fair value or at the non-controlling interests' proportionate share of the acquiree's net identifiable assets; the Group will elect the latter option,
iii. 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,
iv. changes in the contingent consideration of an acquisition will be accounted outside goodwill.

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 interest of an acquiree that does not result in a loss of control shall be recognised in equity.

IFRS 8 – Operating segments

This standard will be applied in 2009. The Group has assessed its impact and determined that it should not significantly change its segments previously identified under IAS 14 – Segment Reporting.

IAS 1 Revised – Presentation of financial statements

The standard includes non mandatory changes of the titles of the financial statements that the Group will not apply. The standard also introduces a statement of comprehensive income but allows to present an income statement and a statement of recognised income and expense, which is the option that the Group will follow.

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 currently elected by the Group. This standard is not expected to have a significant impact when the Group applies it in 2009, except when major industrial facilities are constructed.

IFRIC 13 – Consumer loyalty programmes

The Group will apply this interpretation in 2009. It 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 is unlikely to have a material effect on its results.

Modification of the scope of consolidation

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

1. Segmental information

By management responsibility and geographic area

Period	In millions of CHF	Zone Europe	Zone Americas	Zone Asia, Oceania and Africa	Nestlé Waters	Nestlé Nutrition
January–June 2008	Sales	13 768	15 132	8 361	4 954	5 176
	EBIT Earnings Before Interest, Taxes, restructuring and impairments	1 617	2 259	1 360	357	956
	Impairment of segment assets	35	11	(13)	15	2
	Restructuring costs	53	16	18	44	7
January–June 2007	Sales	13 561	15 289	8 030	5 411	3 441
	EBIT Earnings Before Interest, Taxes, restructuring and impairments	1 552	2 219	1 307	504	644
	Impairment of segment assets	(1)	(1)	(5)	230	–
	Restructuring costs	103	13	10	50	23

(a) Mainly Nespresso and Food and Beverages Joint Ventures managed on a worldwide basis
(b) Mainly corporate expenses as well as research and development costs

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

By product group

Period	In millions of CHF	Beverages	Milk products, Nutrition and Ice cream	Prepared dishes and cooking aids	Confectionery
January–June 2008	Sales	13 995	15 450	8 555	5 430
	EBIT Earnings Before Interest, Taxes, restructuring and impairments	2 430	2 105	972	584
	Impairment of segment assets	16	9	16	–
	Restructuring costs	56	31	35	13
January–June 2007	Sales	13 858	13 539	8 785	5 307
	EBIT Earnings Before Interest, Taxes, restructuring and impairments	2 421	1 700	1 064	476
	Impairment of segment assets	230	3	(1)	(5)
	Restructuring costs	60	61	22	57

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

	Other Food and Beverages [a]	Unallocated items [b]	Total Food and Beverages	Pharma	Total
January–June 2008					
Sales	1 932		49 323	3 743	**53 066**
EBIT Earnings Before Interest, Taxes, restructuring and impairments	394	(866)	6 077	1 264	**7 341**
Impairment of segment assets	–	–	50	45	**95**
Restructuring costs	1	–	139	22	**161**
January–June 2007					
Sales	1 673		47 405	3 709	**51 114**
EBIT Earnings Before Interest, Taxes, restructuring and impairments	317	(846)	5 697	1 222	**6 919**
Impairment of segment assets	5	–	228	69	**297**
Restructuring costs	1	–	200	–	**200**

	PetCare	Pharmaceutical products	Total segments	Unallocated items [a]	Total
January–June 2008					
Sales	5 893	3 743	**53 066**		**53 066**
EBIT Earnings Before Interest, Taxes, restructuring and impairments	852	1 264	**8 207**	(866)	**7 341**
Impairment of segment assets	9	45	**95**	–	**95**
Restructuring costs	4	22	**161**	–	**161**
January–June 2007					
Sales	5 916	3 709	**51 114**		**51 114**
EBIT Earnings Before Interest, Taxes, restructuring and impairments	882	1 222	**7 765**	(846)	**6 919**
Impairment of segment assets	1	69	**297**	–	**297**
Restructuring costs	–	–	**200**	–	**200**

2. 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.

3. Net other income/(expenses)

In millions of CHF	January–June 2008	January–June 2007
Other expenses		
Loss on disposal of businesses	(25)	(29)
Restructuring costs	(161)	(200)
Impairment of property, plant and equipment	(39)	(43)
Impairment of goodwill and intangible assets	(56)	(254)
Other	(85)	(128)
	(366)	**(654)**
Other income		
Profit on sale of property, plant and equipment	12	127
Profit on disposal of businesses [a]	64	202
Other	56	168
	132	**497**
Net other income/(expenses)	**(234)**	**(157)**

[a] Mainly resulting from the exercise of stock options by Alcon employees and related dilution on issuance of new shares.

Impairment of goodwill

As at 30 June 2007, the impairment test of the goodwill allocated to the Cash Generating Unit defined as the Nestlé Waters Home and Office Delivery business in Europe resulted in an impairment of goodwill amounting to CHF 210 million. For full details, please refer to the 2007 Consolidated Financial Statements.

4. Share of results of associates

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

[a] Considering own shares held by L'Oréal in relation to the employee stock option plans and the share buyback programmes

5. Equity

Share capital

The share capital changed twice in the last two financial years as a consequence of the share buy-back programmes launched in 2005 and 2007; the cancellation of shares was approved at the Annual General Meetings of 19 April 2007 and 10 April 2008. In 2007, the share capital was reduced by 7 663 200 shares from CHF 401 million to CHF 393 million. In 2008, the share capital was further reduced by 10 072 500 shares from CHF 393 million to CHF 383 million.

Additionally, the shareholders gave their assent at the last Annual General Meeting to a 1-for-10 share split and respective increase of the number of shares. This split aims to increase the liquidity and tradability of the Nestlé S.A. shares. As a consequence, the nominal value of the shares was reduced from CHF 1.– to CHF 0.10.

At 30 June 2008, the share capital of Nestlé S.A. is composed of 3 830 000 000 of registered shares.

Dividend

The dividend related to 2007 was paid on 16 April 2008 in conformity with the decision taken at the Annual General Meeting on 10 April 2008. Shareholders approved the proposed dividend of CHF 12.20 per share, resulting in a total dividend of CHF 4573 million.

6. Non-cash items of income and expense

In millions of CHF	January–June 2008	January–June 2007
Share of results of associates	(612)	(543)
Depreciation of property, plant and equipment	1 294	1 327
Impairment of property, plant and equipment	39	43
Depreciation of intangible assets	300	273
Impairment of goodwill and intangible assets	56	254
Net result on disposal of businesses	(39)	(173)
Net result on disposal of assets	32	(155)
Non-cash items in financial assets and liabilities	113	(2)
Deferred taxes	(131)	137
Taxes on equity items	63	(100)
Equity compensation plans	144	145
	1 259	**1 206**

7. Acquisition of businesses

The cash outflow of CHF 665 million relates to various minor acquisitions in 2008 whereas it primarily related in 2007 to the acquisition by Alcon of its own shares to satisfy obligations under its stock option plan as well as Alcon's acquisition of own shares for cancellation.

The sales and the profit for the period are not significantly impacted by acquisitions.

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

8. Disposal of businesses

Alcon

On 7 April 2008, the Group publicly announced that it has agreed to sell 24.8% of Alcon outstanding capital to Novartis for a total amount of USD 10.4 billion. The transaction was completed on 7 July 2008. This transaction will result in an increase of minority interests.

The agreement further includes the option for Novartis to acquire Nestlé's remaining shareholding in Alcon at a price of USD 181.– per share from January 2010 till July 2011. During the same period, Nestlé 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%.

9. Bonds

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

In millions of CHF						January–June 2008
Issuer	Face value in millions	Interest rates		Year of issue/ maturity	Comments	
		Nominal	Effective			
New issues						
Nestlé Holdings, Inc., USA	NOK 1000	5.00%	5.55%	2008–2011	(a)	190
	AUD 300	7.25%	7.37%	2008–2011	(a)	279
	CHF 150	3.00%	2.48%	2008–2012	(a)	147
	CHF 100	3.00%	2.68%	2008–2012	(a)	97
	CHF 100	2.75%	2.43%	2008–2010	(a)	97
	CHF 50	3.00%	2.80%	2008–2012	(a)	54
	NZD 100	8.25%	8.53%	2008–2010	(a)	82
	AUD 150	7.25%	7.71%	2008–2011	(a)	144
	CHF 125	2.75%	3.00%	2008–2010	(a)	129
	CHF 175	3.00%	3.13%	2008–2012	(a)	180
	NOK 500	4.75%	5.87%	2008–2010	(a)	105
	USD 400	4.00%	4.07%	2008–2011	(a)	419
Total new issues						**1 923**
Repayments						
Nestlé Holdings, Inc., USA	USD 400	3.50%	3.81%	2005–2008	(a)	419
	USD 250	3.75%	3.42%	2003–2009	(b)	262
Nestlé Finance International Ltd, Luxembourg (formerly Nestlé Finance-France S.A., France)	AUD 200	6.00%	6.03%	2004–2008	(a)	200
	EUR 500	3.50%	3.51%	2003–2008	(a)	803
Nestlé (Thai) Ltd, Thailand	THB 5000	2.16%	2.16%	2003–2008		162
Other						28
Total repayments						**1 874**

(a) Subject to an interest rate and/or currency swap that creates/created a liability at fixed or floating rates in the currency of the issuer
(b) The step-up fixed rate callable medium term note was called by Nestlé Holdings Inc. on March 2008 in accordance with terms and conditions.

Turbo Zero Equity-Link issue with warrants on Nestlé S.A. shares

During the period 50 765 warrants were exercised. Notes valued at amortised cost of USD 501 million (nominal USD 507 million) were exchanged with 1 619 688 Nestlé S.A. shares of nominal value of CHF 1.–.

10. Restatement following first application of IFRIC 14

2007 comparatives have been restated as follows:

In millions of CHF	As originally published	First application of IFRIC 14	Restated
At 1 January 2007			
Employee benefits assets	343	1 026	**1 369**
Deferred tax liabilities	706	233	**939**
Total equity attributable to shareholders of the parent	50 991	793	**51 784**
At 30 June 2007			
Employee benefits assets	426	1 157	**1 583**
Deferred tax liabilities	951	263	**1 214**
Total equity attributable to shareholders of the parent	52 905	894	**53 799**
At 31 December 2007			
Employee benefits assets	811	702	**1 513**
Deferred tax liabilities	1 398	160	**1 558**
Total equity attributable to shareholders of the parent	52 085	542	**52 627**

The first application of this interpretation did not affect the income statement and earnings per share.

Shareholder information

Stock exchange listings

Nestlé S.A. shares were listed on the SWX 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 Company offers the possibility of depositing, free of charge, Nestlé S.A. shares traded on the SWX Swiss Exchange.

Nestlé URL: www.nestle.com

Important dates

23 October 2008
Announcement of nine months 2008 sales figures; Autumn press conference

19 February 2009
2008 Full Year Results; press conference

23 April 2009
142nd Annual General Meeting, "Palais de Beaulieu", Lausanne