Nestlé

Good Food, Good Life

Half-Yearly Report

January–June 2013

Nutrition to enhance the quality of life

Shareholder information

Stock exchange listing
Nestlé S.A. shares are listed on the SIX Swiss Exchange (ISIN code: CH0038863350). American Depositary Receipts (ADRs) (ISIN code: US6410694060) representing Nestlé S.A. shares are offered in the USA by Citibank.

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The Half-Yearly Report is available online as a PDF file in English, French and German.

Nestlé URL:
www.nestle.com

Important dates
17 October 2013
2013 Nine months sales figures

13 February 2014
2013 Full Year Results

10 April 2014
147th Annual General Meeting, "Beaulieu Lausanne", Lausanne (Switzerland)

Letter to shareholders

Fellow shareholders,

In the first half we delivered a balanced performance, both top and bottom line, in an environment of lower growth and lower input costs. Organic growth was somewhat muted, reflecting lower pricing by our markets, as we leveraged softer input costs to meet the expectations of today's more value conscious consumers. This, combined with substantially increased investment behind our brands, delivered stronger volume growth momentum, whilst at the same time we were able to improve the operating margin. We expect this growth momentum to continue in the second half, allowing us for the full year to deliver, in line with our commitments, around 5% organic growth with an improvement in margins and underlying earnings per share in constant currencies.

First-half results

Sales increased by 5.3% to CHF 45.2 billion. Organic growth was 4.1%, composed of 2.7% real internal growth and 1.4% pricing. Acquisitions, net of divestitures, added 2.1% to sales, whilst foreign exchange had an impact of –0.9%.

The Group's trading operating profit (TOP) was CHF 6.8 billion, up 6.8%. The trading operating profit margin was 15.1%, up 20 basis points.

The cost of goods sold fell by 110 basis points, reflecting generally lower input costs, as well as our ongoing efforts to streamline our structures and operations.

We substantially increased our brand support, with total marketing spend up by 60 basis points. Consumer facing spend rose 15% in constant currencies.

Net profit was up 3.7% to CHF 5.1 billion and earnings per share were up 3.4% reported to CHF 1.60. Underlying earnings per share in constant currencies were up 7.2%.

Our operating cash flow was strong at CHF 5 billion.

Business review

The trading environment continued to be subdued with low consumer confidence in developed countries and lower growth in emerging markets. Organic growth for the Group was 5.0% in the Americas, 0.6% in Europe, and 6.3% in Asia, Oceania and Africa. Globally, our businesses in developed markets grew 1.0%, whilst emerging markets grew 8.2%. Our pricing reflected our desire to meet the expectations of today's more value conscious consumers. As such, all three geographies accelerated their real internal growth in the second quarter. Real internal growth was 2.1% in the Americas, 1.5% in Europe and 5.0% in Asia, Oceania and Africa.

We continue to invest for the future, with a new petcare factory in Poland, coffee factories in China, Vietnam, Spain and Germany, dairy factories in China and the Dominican Republic, a ready-to-drink beverages facility in Malaysia and a water factory in the UK.

We further enhanced our global capabilities for innovation, in line with our Nutrition, Health and Wellness strategy. In Europe we opened a new beverage systems technology centre, in the USA a new R&D centre focused on chilled and frozen food, and in Asia new R&D facilities for powdered and liquid beverages. We continued to build Nestlé Health Science's capabilities to research, develop, manufacture and market personalised healthcare through nutrition with partnerships and acquisitions. We opened new laboratories in Switzerland which will further enhance our research into food safety.

Zone Americas: Sales CHF 13.6 billion, 5.0% organic growth, 1.5% real internal growth; 17.8% TOP margin, +30 basis points.

Both North America and Latin America contributed to the Zone's growth. Growth in the North was driven more by real internal growth, whilst growth in Latin America was more weighted to price, reflecting continued inflation in the region.

In North America, the category trends remained broadly unchanged from the first quarter. Frozen food saw growth in *Stouffer's* frozen entrees and share gains for *DiGiorno* pizza, but continued to experience contraction in the nutritional segment where *Lean Cuisine* is positioned. *Nescafé* and *Coffee-Mate*, confectionery and in petcare *Purina*, especially cat food and snacks, continued to perform well. Growth in ice cream was driven by super-premium. Recent innovations have been well received, including *Häagen Dazs Gelato* and *DiGiorno Pizzeria*.

In Latin America, Brazil continued to deliver a high level of organic growth, with *Nescau* and biscuits the highlights. The *Kit Kat* launch there continued to build strong momentum. Mexico's dairy business performed well. There was also strong growth in Chile and Ecuador, and petcare delivered double-digit growth across the region.

The Zone's trading operating profit margin was 17.8%. Pricing in Latin America compensated for costs there, whilst lower input costs contributed in North America. For the Zone as a whole, the savings initiatives helped reduce costs, and enabled increased brand investment.

Zone Europe: Sales CHF 7.5 billion, 0.5% organic growth, 1.8% real internal growth; 14.9% TOP margin, –10 basis points.

In Europe consumers are extremely sensitive to price and we have been responsive. We also increased the investment behind our brands, supporting innovation which enabled us to gain market share.

In Western Europe *Nescafé Dolce Gusto* also continued to grow rapidly. The growth in soluble coffee was led by share gains by *Nescafé Gold Blend* as well as *Nescafé* smart packs. Confectionery had a good first half. Ice cream and frozen food sales were weak, but there was acceleration in *Buitoni* and in *Wagner* pizzas, whilst *Maggi* picked up in Germany. In petcare *Purina* continued to grow, especially in the premium segment, with brands such as *Proplan*, *ONE Dry* and *Gourmet*. Amongst markets, Germany and Great Britain were the highlights, with good levels of organic growth.

Eastern and Central Europe saw very strong growth in Russia and good progress in the Czech / Slovak region. In other markets we saw intensified competition as consumer spend contracted. In general *Kit Kat* grew double-digit and *Nescafé Gold* and ice cream were key contributors, as was petcare.

The Zone's trading operating profit margin was 14.9%. Input costs contributed to an improved cost structure, but marketing investment was stepped up during the period.

Zone Asia, Oceania and Africa: Sales CHF 9.4 billion, 5.0% organic growth, 4.0% real internal growth, 19.1% TOP margin, +20 basis points.

Some emerging markets experienced lower growth but the Zone was able to deliver improved broad-based real internal growth. China, Indonesia, Malaysia and much of Africa continued to grow well, and there was a pick-up in recent months in the South Asia and the Central West Africa regions and in the Middle East.

Kit Kat and *Nescafé Dolce Gusto* led the growth in developed markets, with good performances also from *Nescafé Barista* in Japan and *Milo* in Australia.

Momentum picked up in the large ambient dairy and culinary categories, in *Milo* and petcare. Confectionery grew strongly with some seasonality. Ice cream performed well.

The Zone's trading operating profit margin was 19.1%. Lower input cost pressures were beneficial, and the Zone increased its brand support.

Nestlé Waters: Sales CHF 3.7 billion, 2.2% organic growth, 1.8% real internal growth; 10.0% TOP margin, unchanged.

Nestlé Waters' growth improved over the period. The North American and European businesses' promotional actions delivered an up-lift in real internal growth.

Emerging markets continued to deliver robust growth with many double-digit. *Nestlé Pure Life* and the premium brands, *S. Pellegrino* and *Perrier*, continued to perform well together with local brands.

The Nestlé Waters trading operating profit margin was flat compared to the first half of 2012 despite lower real internal growth and pricing than the previous year. This was due to the beneficial mix in the sales, both by geography and by brand, and the focus on cost management.

Nestlé Nutrition: Sales CHF 5.0 billion, 6.5% organic growth, 4.3% real internal growth; 20.0% TOP margin, –60 basis points.

Infant Nutrition had a good first half, growing in all three zones. It achieved double-digit growth in Asia, Oceania and Africa, and near double-digit in the Americas. Formula and cereals were the key growth drivers, due to their presence in emerging markets where they grew double-digit. The USA was also a highlight for formula with innovation in both the premium and value segments driving double-digit growth. Meals and drinks also contributed positively due to its good performance in the USA pouch segment. Wyeth Nutrition had a strong first half, in line with expectations both on sales growth and profitability, with Asia the highlight.

Weight Management continued to underperform and the measures taken, including restructuring and a renewed focus on the online business, have yet to show results.

The Nestlé Nutrition trading operating profit margin was 20.0%. It was impacted by integration costs of Wyeth Nutrition, as expected, and by Weight Management.

Other: Sales CHF 6.0 billion, 5.0% organic growth, 3.9% real internal growth; 19.2% TOP margin, +60 basis points.

Nestlé Professional had a slow but positive first half, impacted by reduced consumption in Europe and a slowdown in China, one of its larger markets. It continued to grow in North America and to see double-digit growth in Latin America. The beverage solutions business delivered good growth, compensating for price competition in the traditional ingredients business.

The Nespresso 2013 coffee launch programme led to a sharp acceleration in growth for the business during the second quarter. The range of Grand Cru coffees was expanded to 19 varieties. The launch of the *Trieste* and *Napoli* limited editions in March added impetus to growth. Innovations like these, together with geographic expansion and boutique openings, are enabling Nespresso to drive category growth in an intense competitive environment.

Nestlé Health Science enjoyed good growth in the period, with all three zones contributing. With the recent acquisition of Pamlab among others, and a promising start for the Nutrition Science Partners joint venture, we continued to build the foundations for future growth. A range of innovations has been launched, including *Boost* Nutrition Bars in the USA, *Nutren Senior* in Brazil, *Resource 2.5 Compact* in various European markets, *Isocal* semisolid support in Japan, and Prometheus *Anser ADA* diagnostics tests in the USA.

Outlook

We expect the improving real internal growth momentum of the first half to continue, allowing us for the full year to deliver, around 5% organic growth with an improvement in margins and underlying earnings per share in constant currencies, as well as an improvement in our capital efficiency.

Peter Brabeck-Letmathe
Chairman of the Board

Paul Bulcke
Chief Executive Officer

Principal exchange rates

CHF per		June 2013	December 2012	June 2012	January–June 2013	January–June 2012
			Ending rates		Weighted average rates	
1 US Dollar	USD	0.947	0.915	0.953	0.937	0.929
1 Euro	EUR	1.236	1.207	1.201	1.230	1.205
100 Brazilian Reais	BRL	43.339	44.775	45.611	46.222	49.899
100 Chinese Yuan Renminbi	CNY	15.410	14.686	15.004	15.121	14.699
100 Mexican Pesos	MXN	7.297	7.045	7.059	7.459	7.011
1 Pound Sterling	GBP	1.443	1.479	1.494	1.445	1.465
1 Canadian Dollar	CAD	0.904	0.920	0.931	0.922	0.924
1 Australian Dollar	AUD	0.877	0.950	0.971	0.949	0.958
100 Philippine Pesos	PHP	2.190	2.227	2.260	2.269	2.165
100 Japanese Yen	JPY	0.957	1.063	1.196	0.979	1.163

Key figures (consolidated)

Key figures in CHF

In millions of CHF (except for per share data)	January–June 2013	January–June 2012 [a]
Sales	45 168	42 878
Trading operating profit	6 805	6 373
as % of sales	*15.1%*	*14.9%*
Profit for the period attributable to shareholders of the parent (Net profit)	5 120	4 937
as % of sales	*11.3%*	*11.5%*
Equity attributable to shareholders of the parent	61 958	56 156
Net financial debt	22 221	14 964
Operating cash flow	4 975	5 217
Free cash flow	3 071	3 143
Capital expenditure	1 329	1 654
as % of sales	*2.9%*	*3.9%*
Basic earnings per share	1.60	1.55
Market capitalisation	197 783	180 263

Key figures in USD and EUR (illustrative)

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

In millions (except for per share data)	January–June 2013 in USD	January–June 2012 [a] in USD	January–June 2013 in EUR	January–June 2012 [a] in EUR
Sales	48 198	46 177	36 718	35 597
Trading operating profit	7 261	6 863	5 532	5 291
Profit for the period attributable to shareholders of the parent (Net profit)	5 463	5 316	4 162	4 098
Equity attributable to shareholders of the parent	65 450	58 907	50 147	46 739
Net financial debt	23 473	15 697	17 985	12 455
Operating cash flow	5 309	5 618	4 044	4 331
Free cash flow	3 277	3 385	2 496	2 609
Capital expenditure	1 418	1 781	1 080	1 373
Basic earnings per share	1.71	1.67	1.30	1.29
Market capitalisation	208 929	189 094	160 081	150 033

(a) 2012 comparatives have been restated following the implementation of IFRS 11 and IAS 19 revised (see Note 12).

Consolidated income statement for the period ended 30 June 2013

In millions of CHF	Notes	January–June 2013	January–June 2012 (a)
Sales	3	**45 168**	**42 878**
Other revenue		120	103
Cost of goods sold		(23 456)	(22 732)
Distribution expenses		(4 082)	(3 885)
Marketing and administration expenses		(10 020)	(9 222)
Research and development costs		(691)	(663)
Other trading income	5	48	75
Other trading expenses	5	(282)	(181)
Trading operating profit	3	**6 805**	**6 373**
Other operating income		60	34
Other operating expenses		(129)	(78)
Operating profit		**6 736**	**6 329**
Financial income		81	114
Financial expense		(415)	(424)
Profit before taxes, associates and joint ventures		**6 402**	**6 019**
Taxes		(1 752)	(1 542)
Share of results of associates and joint ventures	6	681	665
Profit for the period		**5 331**	**5 142**
of which attributable to non-controlling interests		211	205
of which attributable to shareholders of the parent (Net profit)		5 120	4 937
As percentages of sales			
Trading operating profit		15.1%	14.9%
Profit for the period attributable to shareholders of the parent (Net profit)		11.3%	11.5%
Earnings per share (in CHF)			
Basic earnings per share		1.60	1.55
Diluted earnings per share		1.60	1.54

(a) 2012 comparatives have been restated following the implementation of IFRS 11 and IAS 19 revised (see Note 12).

Consolidated statement of comprehensive income for the period ended 30 June 2013

In millions of CHF	January–June 2013	January–June 2012 [a]
Profit for the period recognised in the income statement	**5 331**	**5 142**
Currency retranslations	678	223
Fair value adjustments on available-for-sale financial instruments		
– Unrealised results	54	96
– Recognition of realised results in the income statement	(1)	12
Fair value adjustments on cash flow hedges		
– Recognised in hedging reserve	62	39
– Removed from hedging reserve	52	63
Taxes	70	—
Share of other comprehensive income of associates and joint ventures	282	256
Items that are or may be reclassified subsequently to the income statement	1 197	689
Actuarial gains/(losses) on defined benefit schemes	1 362	(1 266)
Taxes	(409)	334
Share of other comprehensive income of associates and joint ventures	56	(96)
Items that will never be reclassified to the income statement	1 009	(1 028)
Other comprehensive income for the period	**2 206**	**(339)**
Total comprehensive income for the period	**7 537**	**4 803**
of which attributable to non-controlling interests	251	179
of which attributable to shareholders of the parent	7 286	4 624

(a) 2012 comparatives have been restated following the implementation of IFRS 11 and IAS 19 revised (see Note 12).

Consolidated balance sheet as at 30 June 2013

In millions of CHF	30 June 2013	31 December 2012 [a] [b]	30 June 2012 [a]
Assets			
Current assets			
Cash and cash equivalents	3 871	5 713	4 814
Short-term investments	2 505	3 583	4 807
Inventories	9 575	8 935	9 605
Trade and other receivables	13 570	13 043	12 859
Prepayments and accrued income	1 030	821	1 080
Derivative assets	476	576	887
Current income tax assets	1 071	972	886
Assets held for sale	274	464	12
Total current assets	**32 372**	**34 107**	**34 950**
Non-current assets			
Property, plant and equipment	26 587	26 568	23 898
Goodwill	33 643	32 624	28 926
Intangible assets	13 313	13 018	8 793
Investments in associates and joint ventures	12 409	11 586	10 686
Financial assets	5 275	4 987	5 268
Employee benefits assets	101	84	114
Current income tax assets	62	27	36
Deferred tax assets	2 434	2 899	2 860
Total non-current assets	**93 824**	**91 793**	**80 581**
Total assets	**126 196**	**125 900**	**115 531**

(a) 2012 comparatives have been restated following the implementation of IFRS 11 and IAS 19 revised (see Note 12).
(b) 2012 comparatives have been adjusted in relation to the updated valuation of the 2012 Wyeth Nutrition acquisition (see Note 2).

In millions of CHF	Notes	30 June 2013	31 December 2012 [a] [b]	30 June 2012 [a]
Liabilities and equity				
Current liabilities				
Financial debt		18 988	18 408	17 659
Trade and other payables		14 071	14 647	12 755
Accruals and deferred income		3 198	3 081	2 644
Provisions		396	452	478
Derivative liabilities		503	423	550
Current income tax liabilities		1 322	1 608	1 423
Liabilities directly associated with assets held for sale		31	1	—
Total current liabilities		**38 509**	**38 620**	**35 509**
Non-current liabilities				
Financial debt		9 609	9 008	6 926
Employee benefits liabilities		6 828	8 360	8 114
Provisions		2 906	2 827	2 879
Deferred tax liabilities		2 374	2 240	2 194
Other payables		2 360	2 181	2 178
Total non-current liabilities		**24 077**	**24 616**	**22 291**
Total liabilities		**62 586**	**63 236**	**57 800**
Equity				
Share capital	8	322	322	322
Treasury shares		(1 906)	(2 078)	(2 028)
Translation reserve		(17 285)	(17 924)	(16 678)
Retained earnings and other reserves		80 827	80 687	74 540
Total equity attributable to shareholders of the parent		**61 958**	**61 007**	**56 156**
Non-controlling interests		1 652	1 657	1 575
Total equity		**63 610**	**62 664**	**57 731**
Total liabilities and equity		**126 196**	**125 900**	**115 531**

(a) 2012 comparatives have been restated following the implementation of IFRS 11 and IAS 19 revised (see Note 12).
(b) 2012 comparatives have been adjusted in relation to the updated valuation of the 2012 Wyeth Nutrition acquisition (see Note 2).

Consolidated cash flow statement for the period ended 30 June 2013

In millions of CHF	Notes	January–June 2013	January–June 2012 [a]
Operating activities			
Operating profit	7	6 736	6 329
Non-cash items of income and expense	7	1 775	1 619
Cash flow before changes in operating assets and liabilities		**8 511**	**7 948**
Decrease/(increase) in working capital		(1 932)	(1 458)
Variation of other operating assets and liabilities		(299)	(205)
Cash generated from operations		**6 280**	**6 285**
Net cash flows from treasury activities [b]		(13)	(130)
Taxes paid		(1 931)	(1 482)
Dividends and interest from associates and joint ventures		639	544
Operating cash flow		**4 975**	**5 217**
Investing activities			
Capital expenditure		(1 329)	(1 654)
Expenditure on intangible assets		(150)	(195)
Sale of property, plant and equipment		24	77
Acquisition of businesses	2	(22)	(18)
Disposal of businesses	2	228	3
Investments (net of disinvestments) in associates and joint ventures		(297)	(177)
Outflows from non-current financial investments		(139)	(62)
Inflows from non-current financial investments		1 597	720
Inflows/(outflows) from short-term financial investments		(278)	(217)
Other investing cash flows		(152)	(125)
Cash flow from investing activities		**(518)**	**(1 648)**
Financing activities			
Dividend paid to shareholders of the parent	8	(6 552)	(6 213)
Dividends paid to non-controlling interests		(167)	(100)
Acquisition (net of disposal) of non-controlling interests		(155)	(129)
Purchase of treasury shares		(259)	(206)
Sale of treasury shares		41	848
Inflows from bonds and other non-current financial debt		1 890	983
Outflows from bonds and other non-current financial debt		(341)	(1 052)
Inflows/(outflows) from current financial debt		(659)	2 315
Cash flow from financing activities		**(6 202)**	**(3 554)**
Currency retranslations		(97)	30
Increase/(decrease) in cash and cash equivalents		**(1 842)**	**45**
Cash and cash equivalents at beginning of year		5 713	4 769
Cash and cash equivalents at end of period		**3 871**	**4 814**

(a) 2012 comparatives have been restated following the implementation of IFRS 11 and IAS 19 revised (see Note 12).
(b) Interest paid amounts to CHF 236 million (2012: CHF 239 million) and interest and dividends received to CHF 77 million (2012: CHF 59 million).

Consolidated statement of changes in equity for the period ended 30 June 2013

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 1 January 2012 (a)	330	(6 722)	(16 927)	80 184	56 865	1 477	58 342
Profit for the period (a)				4 937	4 937	205	5 142
Other comprehensive income for the period (a)			249	(562)	(313)	(26)	(339)
Total comprehensive income for the period (a)			249	4 375	4 624	179	4 803
Dividend paid to shareholders of the parent				(6 213)	(6 213)		(6 213)
Dividends paid to non-controlling interests						(100)	(100)
Movement of treasury shares (b)		559		297	856		856
Equity compensation plans		204		(108)	96		96
Changes in non-controlling interests				(113)	(113)	19	(94)
Reduction in share capital	(8)	3 931		(3 923)	—		—
Total transactions with owners	(8)	4 694		(10 060)	(5 374)	(81)	(5 455)
Other movements				41	41		41
Equity as at 30 June 2012 (a)	322	(2 028)	(16 678)	74 540	56 156	1 575	57 731
Equity as at 31 December 2012 (a)	322	(2 078)	(17 924)	80 687	61 007	1 657	62 664
Profit for the period				5 120	5 120	211	5 331
Other comprehensive income for the period			639	1 527	2 166	40	2 206
Total comprehensive income for the period			639	6 647	7 286	251	7 537
Dividend paid to shareholders of the parent				(6 552)	(6 552)		(6 552)
Dividends paid to non-controlling interests						(167)	(167)
Movement of treasury shares		(316)		66	(250)		(250)
Equity compensation plans		204		(107)	97		97
Other transactions settled with treasury shares		284			284		284
Changes in non-controlling interests				(19)	(19)	(89)	(108)
Total transactions with owners		172		(6 612)	(6 440)	(256)	(6 696)
Other movements				105	105		105
Equity as at 30 June 2013	322	(1 906)	(17 285)	80 827	61 958	1 652	63 610

(a) 2012 comparatives have been restated following the implementation of IFRS 11 and IAS 19 revised (see Note 12).
(b) Movements reported under retained earnings and other reserves mainly relate to written put options on treasury shares.

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 2013. 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 2012.

The accounting conventions and accounting policies are the same as those applied in the Consolidated Financial Statements for the year ended 31 December 2012, 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 2012.

Changes in accounting policies

The Group has applied the following new International Financial Reporting Standards (IFRS) and revised International Accounting Standards (IAS) as from 1 January 2013 onwards.

IFRS 10 – Consolidated Financial Statements

This standard introduces a new single control model as the basis for consolidation applicable to all investees. It also introduces a changed definition of control. The Group is deemed to control a company when it is exposed, or has rights, to variable returns from its involvement with that company and has the ability to affect those returns through its power over the company.

It was applied for the first time retrospectively in compliance with the transitional provisions and did not have a material impact on the Group's Financial Statements.

IFRS 11 – Joint Arrangements

This standard establishes principles for the financial reporting by parties to a joint arrangement. The standard affected the Group's accounting for companies over which the Group exercises joint control with partners. Joint control exists if decisions regarding the relevant activities require the unanimous consent of the parties sharing control. Joint arrangements are classified as either joint ventures or joint operations. The Group's main joint arrangements (CPW and Galderma), which were previously included by proportionate consolidation, are now classified as joint ventures under IFRS 11 and are therefore accounted for using the equity method in accordance with the provisions of the amended IAS 28 – Investments in Associates and Joint Ventures. In relation to its interest in joint operations the Group recognises its share of assets, liabilities, revenues and expenses in accordance with its rights and obligations.

IFRS 11 was applied retrospectively in accordance with the transitional provisions. The change affected almost all Financial Statement line items resulting in decreasing revenues and expenses, assets and liabilities. Nevertheless, profit for the period and equity were unchanged.

30 June 2012 comparatives have been restated and the main impact for the six-month period ending 30 June 2012 was a decrease in sales of CHF 1.2 billion and operating profit of CHF 87 million.

IFRS 12 – Disclosure of Interests in Other Entities

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

IFRS 13 – Fair Value Measurement

This standard applies when other IFRS require or permit fair value measurements. It defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements.

It was applied prospectively, in accordance with the transitional provisions and did not have a material impact on the Group's Financial Statements. Due to the consequential adjustments in IAS 34 – Interim Financial Reporting, the Group has modified its interim disclosures accordingly.

IAS 19 Revised 2011 – Employee Benefits

The amendments that have the most significant impact included:

– the replacement of the expected return on plan assets and interest costs on the defined benefit obligation with a single net interest component. This net interest

component is calculated by applying the discount rate to the net defined benefit liability (or asset) and is now recognised within the financial income and expense;
– the immediate recognition of all past service costs.

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

The Group is applying IAS 19 Revised 2011 retrospectively and 30 June 2012 comparatives have been restated where required for all of these changes. The main impact for the six-month period ending 30 June 2012 was a decrease in operating profit of CHF 134 million, an increase in net financial expense of CHF 123 million and a decrease in profit for the period of CHF 183 million.

Improvements and other amendments to IFRS/IAS

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

The Group has modified its disclosures accordingly. None of these amendments had a material effect on the Group's Financial Statements.

Impacts of changes in accounting policies on prior period figures

The impacts that the changes in accounting policies above, applied for the first time in 2013, had on the relevant figures for the prior-year period are shown in Note 12.

Changes in IFRS that may affect the Group after 30 June 2013

The following new standards and amendments to existing standards have been published and are mandatory for accounting periods beginning on 1 January 2014, unless otherwise stated. The Group has not early adopted them.

IFRS 9 – Financial Instruments

The standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard will affect the Group's accounting for its available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Such gains and losses are never reclassified to the income statement at a later date. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities. This standard is effective for the accounting period beginning on 1 January 2015.

Improvements and other amendments to IFRS/IAS

A number of standards have been modified on miscellaneous points. None of these amendments are expected to have a material effect on the Group's Financial Statements.

2. Acquisitions and disposals of businesses

2.1 Modification of the scope of consolidation

During the interim period, the scope of consolidation has not been affected by significant acquisitions. The main transaction was the acquisition of Pamlab, USA, by Nestlé Health Science. Disposals during the interim period represent the sale of participations related to the Wyeth acquisition (see Note 2.4) and some other non significant disposals.

2.2 Acquisitions of businesses

Cash outflows in the first six months of 2013 are related to several non significant acquisitions. The Group's sales and profit for the period are not significantly impacted by them. Cash outflows of the comparative period also include several non significant acquisitions.

Valuation

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

Wyeth Nutrition acquired in November 2012

Adjustments to the provisional values of net assets have been recognised during the interim period. Accordingly, the 2012 Consolidated balance sheet has been adjusted retrospectively. No other major adjustments are expected in the second half of 2013.

The major classes of assets acquired and liabilities assumed at the acquisition date are as follows:

In millions of CHF	2012 adjusted	2012 as originally published
Property, plant and equipment	1 136	908
Intangible assets (a)	4 510	4 589
Inventories and other assets (b)	1 091	1 059
Assets held for sale (see Note 2.3)	454	787
Financial debt	(6)	(6)
Employee benefits, deferred taxes and provisions	(118)	(100)
Other liabilities	(376)	(350)
Fair value of identifiable net assets	6 691	6 887

(a) Brands and intellectual property rights.
(b) Including the fair value of trade receivables of CHF 355 million with a gross contractual amount of CHF 395 million and estimated cash flows of CHF 40 million not expected to be collected.

Since the acquisition date, and as per the terms of the agreement signed in 2012, the fair value of consideration transferred has been adjusted to CHF 11 286 million resulting in the recognition of a consideration payable of CHF 208 million to be settled in cash in the second half of 2013.

The goodwill arising on the acquisition is as follows:

In millions of CHF	2012 adjusted	2012 as originally published
Fair value of consideration transferred	11 286	11 078
Fair value of identifiable net assets	(6 691)	(6 887)
Goodwill	4 595	4 191

Acquisition-related costs

Acquisition-related costs, which mostly relate to the acquisition of Wyeth Nutrition, have been recognised under Other operating expenses in the income statement for an amount of CHF 12 million in 2013 (2012: CHF 15 million).

2.3 Assets held for sale

Assets held for sale recognised at the acquisition date represented participations in Wyeth Nutrition businesses which the Group did not control. Some have been disposed of during the interim period. Management expects the completion of the sale of the remaining assets held for sale before the end of 2013.

2.4 Disposals of businesses

Cash inflow on disposals of businesses mainly relates to the disposal of assets held for sale with regards to the Wyeth Nutrition acquisition (see Note 2.3).

3. Analyses by segment

3.1 Operating segments

In millions of CHF	Sales [a]	Trading operating profit	Net other trading income/(expenses) *	of which impairment of assets other than goodwill	of which restructuring costs	Impairment of goodwill
						January–June 2013
Zone Europe	7 504	1 117	(33)	(7)	(23)	—
Zone Americas	13 615	2 428	(121)	(1)	(48)	—
Zone Asia, Oceania and Africa	9 394	1 791	(18)	(1)	(3)	—
Nestlé Waters	3 668	365	4	—	6	(3)
Nestlé Nutrition	5 005	1 000	(27)	(4)	(15)	—
Other [b]	5 982	1 148	(31)	(24)	(7)	(24)
Unallocated items [c]		(1 044)	(8)	(1)	(4)	—
Total	**45 168**	**6 805**	**(234)**	**(38)**	**(94)**	**(27)**

* included in Trading operating profit

In millions of CHF	Sales [a]	Trading operating profit	Net other trading income/(expenses) *	of which impairment of assets other than goodwill	of which restructuring costs	Impairment of goodwill
						January–June 2012 [d]
Zone Europe	7 381	1 109	(27)	(6)	(18)	—
Zone Americas	13 266	2 326	(37)	—	8	—
Zone Asia, Oceania and Africa	9 173	1 733	(4)	(3)	(6)	—
Nestlé Waters	3 555	357	(6)	(4)	(4)	(1)
Nestlé Nutrition	3 831	788	(8)	—	(2)	—
Other [b]	5 672	1 054	(19)	(1)	(2)	(1)
Unallocated items [c]		(994)	(5)	—	—	(1)
Total	**42 878**	**6 373**	**(106)**	**(14)**	**(24)**	**(3)**

* included in Trading operating profit

(a) Inter-segment sales are not significant.
(b) Mainly Nespresso, Nestlé Professional and Nestlé Health Science.
(c) Mainly corporate expenses as well as research and development costs.
(d) 2012 comparatives have been restated following the implementation of IFRS 11 and IAS 19 revised (see Note 12).

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

3.2 Products

In millions of CHF						January–June 2013
	Sales	Trading operating profit	Net other trading income/(expenses) *	of which impairment of assets other than goodwill	of which restructuring costs	Impairment of goodwill
Powdered and Liquid Beverages	10 134	2 430	(20)	—	(12)	—
Water	3 438	367	4	—	6	(3)
Milk products and Ice cream	8 609	1 370	(22)	(1)	(21)	—
Nutrition and HealthCare	5 983	1 114	(56)	(29)	(18)	(24)
Prepared dishes and cooking aids	6 853	927	(21)	(1)	(22)	—
Confectionery	4 611	587	(9)	(6)	(9)	—
PetCare	5 540	1 054	(102)	—	(14)	—
Unallocated items [a]		(1 044)	(8)	(1)	(4)	—
Total	**45 168**	**6 805**	**(234)**	**(38)**	**(94)**	**(27)**

* included in Trading operating profit

In millions of CHF						January–June 2012 [b]
	Sales	Trading operating profit	Net other trading income/(expenses) *	of which impairment of assets other than goodwill	of which restructuring costs	Impairment of goodwill
Powdered and Liquid Beverages	9 731	2 238	(26)	(6)	(7)	—
Water [c]	3 343	353	(5)	(4)	(4)	(1)
Milk products and Ice cream	8 442	1 277	(33)	—	(7)	—
Nutrition and HealthCare	4 744	913	(11)	—	(2)	—
Prepared dishes and cooking aids	6 869	910	(17)	(2)	(2)	(1)
Confectionery	4 563	630	(35)	(2)	(9)	—
PetCare	5 186	1 046	26	—	7	—
Unallocated items [a]		(994)	(5)	—	—	(1)
Total	42 878	6 373	(106)	(14)	(24)	(3)

* included in Trading operating profit

(a) Mainly corporate expenses as well as research and development costs.
(b) 2012 comparatives have been restated following the implementation of IFRS 11 and IAS 19 revised (see Note 12).
(c) Beverages other than Water sold by Nestlé Waters (mainly RTD Teas and Juices) have been reclassified to Powdered and Liquid Beverages.

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

3.3 Reconciliation from trading operating profit to profit before taxes, associates and joint ventures

In millions of CHF	January–June 2013	January–June 2012 [a]
Trading operating profit	6 805	6 373
Impairment of goodwill	(27)	(3)
Net other operating income/(expenses) excluding impairment of goodwill	(42)	(41)
Operating profit	**6 736**	**6 329**
Financial income/(expense)	(334)	(310)
Profit before taxes, associates and joint ventures	**6 402**	**6 019**

(a) 2012 comparatives have been restated following the implementation of IFRS 11 and IAS 19 revised (see Note 12).

4. Seasonality

The business of the Group is not highly cyclical. Seasonal evolutions in some countries or product groups are compensated within the Group.

5. Net other trading income/(expenses)

In millions of CHF	January–June 2013	January–June 2012 [a]
Profit on disposal of property, plant and equipment	9	27
Miscellaneous trading income	39	48
Other trading income	**48**	**75**
Loss on disposal of property, plant and equipment	(4)	(8)
Restructuring costs	(94)	(24)
Impairment of assets other than goodwill	(38)	(14)
Litigations and onerous contracts [b]	(112)	(98)
Miscellaneous trading expenses	(34)	(37)
Other trading expenses	**(282)**	**(181)**
Total net other trading income/(expenses)	**(234)**	**(106)**

(a) 2012 comparatives have been restated following the implementation of IFRS 11 and IAS 19 revised (see Note 12).
(b) It relates mainly to numerous separate legal cases (for example labour, civil and tax litigations), liabilities linked to product withdrawals as well as several separate onerous contracts.

6. Share of results of associates and joint ventures

This item mainly includes our share of the estimated results of L'Oréal as well as the share of results of our joint ventures.

7. Cash flow before changes in operating assets and liabilities

In millions of CHF	January–June 2013	January–June 2012 (a)
Profit for the period	5 331	5 142
Share of results of associates and joint ventures	(681)	(665)
Taxes	1 752	1 542
Financial income	(81)	(114)
Financial expense	415	424
Operating profit	**6 736**	**6 329**
Depreciation of property, plant and equipment	1 428	1 281
Impairment of property, plant and equipment	14	14
Impairment of goodwill	27	3
Amortisation of intangible assets	162	221
Impairment of intangible assets	24	—
Net result on disposal of businesses	(11)	—
Net result on disposal of assets	44	8
Non-cash items in financial assets and liabilities	(27)	(2)
Equity compensation plans	77	79
Other	37	15
Non-cash items of income and expense	**1 775**	**1 619**
Cash flow before changes in operating assets and liabilities	**8 511**	**7 948**

(a) 2012 comparatives have been restated following the implementation of IFRS 11 and IAS 19 revised (see Note 12).

8. Equity

8.1 Share capital

The share capital changed in 2012 as a consequence of the Share Buy-Back programmes. The cancellation of shares was approved at the Annual General Meeting on 19 April 2012. In 2012, the share capital was reduced by 75 200 000 shares from CHF 330 million to CHF 322 million.

At 30 June 2013, the share capital of Nestlé S.A. is composed of 3 224 800 000 of registered shares with a nominal value of CHF 0.10 each.

8.2 Dividend

The dividend related to 2012 was paid on 18 April 2013 in accordance with the decision taken at the Annual General Meeting on 11 April 2013. Shareholders approved the proposed dividend of CHF 2.05 per share, resulting in a total dividend of CHF 6552 million.

9. Fair value hierarchy of financial instruments

In millions of CHF	January–June 2013
Derivative assets	27
Bonds and debt funds	645
Equity and equity funds	1 822
Other financial assets	88
Derivative liabilities	(151)
Prices quoted in active markets (Level 1)	**2 431**
Commercial paper	223
Time deposits	1 786
Derivative assets	449
Bonds and debt funds	2 201
Other financial assets	1 564
Derivative liabilities	(352)
Valuation techniques based on observable market data (Level 2)	**5 871**
Other financial assets	169
Valuation techniques based on unobservable input (Level 3)	**169**
Total financial instruments at fair value	**8 471**

The fair values categorised in level 2 above were determined from discounted cash flows and market-based valuation parameters (primarily interest rates, foreign exchange rates and underlying asset prices).

As of 30 June 2013, the carrying amount of bonds issued is CHF 12 189 million, compared to a fair value of CHF 12 226 million (measured on the basis of quoted prices in an active market). For all other financial assets and liabilities, the carrying amount is a reasonable approximation of the fair value.

10. Bonds

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

In millions of CHF						January–June 2013
Issuer	Face value in millions	Coupon	Effective interest rates	Year of issue/ maturity	Comments	Carrying amount
New issues						
Nestlé Holdings, Inc., USA	USD 400	1.38%	1.50%	2013–2018		372
	AUD 175	3.75%	3.84%	2013–2018	(a)	172
	AUD 200	3.88%	4.08%	2013–2018	(a)	192
	USD 500	2.00%	2.17%	2013–2019		464
Nestlé Finance International Ltd, Luxembourg	EUR 500	1.25%	1.30%	2013–2020		613
Total new issues						**1 813**
Repayments						
Nestlé Holdings, Inc., USA	USD 275	2.00%	2.26%	2009–2013		(258)
Other					(b)	(24)
Total repayments						**(282)**

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

11. Events after the balance sheet date

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

12. Restatements of 2012 comparatives

Following the implementation of IFRS 11 – Joint Arrangements and IAS 19 Revised 2011 – Employee Benefits described in the accounting policies, June 2012 comparatives have been restated. Impacts for the main line items of the income statement, statement of comprehensive income and cash flow statement are the following:

Income statement

In millions of CHF	as originally published	Restatement IAS 19	Restatement IFRS 11	restated
Sales	44 097		(1 219)	**42 878**
Trading operating profit	6 599	(134)	(92)	**6 373**
Operating profit	6 550	(134)	(87)	**6 329**
Profit before taxes, associates and joint ventures	6 352	(257)	(76)	**6 019**
Profit for the period	5 325	(183)		**5 142**
of which attributable to shareholders of the parent (Net profit)	5 120	(183)		**4 937**
Basic earnings per share (in CHF)	1.61	(0.06)		**1.55**

Statement of comprehensive income

In millions of CHF	as originally published	Restatement IAS 19	Restatement IFRS 11	**restated**
Profit for the period recognised in the income statement	5 325	(183)		**5 142**
Other comprehensive income for the period	(523)	184		**(339)**
Total comprehensive income for the period	4 802	1		**4 803**
of which attributable to shareholders of the parent	4 623	1		**4 624**

Cash flow statement

In millions of CHF	as originally published	Restatement IAS 19	Restatement IFRS 11	**restated**
Operating cash flow	5 125		92	**5 217**
Free cash flow	3 090		53	**3 143**

Notes

Notes

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