

Half-Yearly Report

January/June 2007



Good Food, Good Life

www.nestle.com (“Investor Relations”)

Key figures (consolidated)

In millions of CHF (except for per share data)	January/June 2007	January/June 2006 ^(a)
Sales	51 114	47 158
EBITD Earnings Before Interest, Taxes, Depreciation, restructuring and impairments	8 519	7 535
<i>as % of Sales</i>	16.7%	16.0%
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments	6 919	6 060
<i>as % of Sales</i>	13.5%	12.9%
EBIT (Food and Beverages)	5 697	4 993
<i>as % of sales (Food and Beverages)</i>	12.0%	11.4%
Profit for the period attributable to shareholders of the parent Net profit	4 916	4 151
<i>as % of Sales</i>	9.6%	8.8%
Capital expenditure	1 731	1 489
<i>as % of Sales</i>	3.4%	3.2%
Equity attributable to shareholders of the parent, end June	52 905	45 489
Market capitalisation, end June	179 180	147 378
Operating cash flow	4 285	3 312
Free cash flow ^(b)	2 515	1 568
Net debt	13 402	13 459
Per share		
Total basic earnings per share	CHF 12.79	10.75
Total fully diluted earnings per share	CHF 12.60	10.65
Equity attributable to shareholders of the parent, end June	CHF 137.64	117.85

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)		
Sales	41 692	37 220
EBITD Earnings Before Interest, Taxes, Depreciation, restructuring and impairments	6 948	5 947
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments	5 643	4 783
Profit for the period attributable to shareholders of the parent Net profit	4 010	3 276
Equity attributable to shareholders of the parent, end June	42 942	36 893
Market capitalisation, end June	145 438	119 528
Per share		
Total basic earnings per share	USD 10.43	8.48
Equity attributable to shareholders of the parent, end June	USD 111.72	95.58

In millions of EUR (except for per share data)		
Sales	31 320	30 152
EBITD Earnings Before Interest, Taxes, Depreciation, restructuring and impairments	5 220	4 818
EBIT (Group) Earnings Before Interest, Taxes, restructuring and impairments	4 239	3 875
Profit for the period attributable to shareholders of the parent Net profit	3 012	2 654
Equity attributable to shareholders of the parent, end June	31 947	29 029
Market capitalisation, end June	108 200	94 051
Per share		
Total basic earnings per share	EUR 7.84	6.87
Equity attributable to shareholders of the parent, end June	EUR 83.11	75.21

^(a) 2006 comparatives have been restated following the decision to transfer the fresh cheese activities in Italy to Nestlé Nutrition (refer to Note 7).

^(b) 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

Overview

Peter Brabeck-Letmathe, Chairman and Chief Executive Officer of Nestlé: “The Group again achieved both strong growth and improved margins, the hallmark of the Nestlé model. These results are due to the strong performance of the Food and Beverages business and Nestlé’s ongoing transformation into the world’s leading nutrition, health and wellness company. In spite of increasing input cost pressures, I am confident of Nestlé achieving above-target organic growth for 2007, as well as a sustainable margin improvement. Finally, the Board has approved a new, three-year CHF 25 billion share buyback programme. This reflects our commitment to an efficient capital structure and our continued confidence in the business.”

Group sales, profitability and financial position

In the first six months of 2007 consolidated sales of the Nestlé Group amounted to CHF 51.1 billion, an increase of 8.4% over the same period last year. This was mainly driven by **organic growth** of 7.4%, consisting of real internal growth of 5.3% and price increases of 2.1%. Foreign exchange pushed sales up by 0.5%, while acquisitions, net of divestitures, added another 0.5%. The Group’s Food and Beverages business achieved organic growth of 7.1%, consisting of real internal growth of 4.9% and price increases of 2.2%.

Food and Beverages’ strong organic growth of 7.1% yielded scale benefits both in cost of goods sold and marketing. Combined with a continued drive for efficiencies, these benefits of scale more than compensated for higher input costs. As a result, Food and Beverages’ **EBIT margin** (Earnings Before Interest and Taxes) was up 60 basis points and was the main contributor to the Group’s overall EBIT margin improvement of 60 basis points to 13.5%. The Group’s EBIT rose 14.2% to CHF 6.9 billion. The cost of goods sold decreased by 20 basis points. Distribution expenses increased by 40 basis points, mainly as a result of the Jenny Craig acquisition in August 2006 and the strong growth of other distribution intensive businesses such as Nestlé Waters. In spite of increased investment in Nestlé’s brands, marketing and administrative costs dropped by 80 basis points due to the good management of trade spend and economies of scale.

Net profit grew 18.4% to CHF 4.9 billion, resulting in a net margin of 9.6%, up 80 basis points. Earnings per share grew 19.0% to CHF 12.79.

The Group’s **operating cash flow** increased by 29.4% or CHF 1 billion over the same period last year, to CHF 4.3 billion. The continued focus on **working capital** resulted in a further improvement in this area as compared to the first half of 2006. The Group’s **net debt** was CHF 13.4 billion, a level similar to the corresponding period last year.

New, three-year CHF 25 billion share buyback programme

Nestlé’s Board of Directors approved a new CHF 25 billion share buyback programme to be completed over the next three years, subject to market conditions and strategic opportunities. This decision takes into account the strong momentum, improving capital efficiency and future prospects of the Food and Beverages business, which is increasingly benefiting from the move towards nutrition, health and wellness. Furthermore, the recent acquisitions of Novartis Medical Nutrition and Gerber create critical mass in Nutrition, with annualised sales of over CHF 10 billion. Therefore, while the Board continues to believe that driving the performance of the Food and Beverages business offers the greatest opportunity for value creation within Nestlé, it takes the view that a significant share buyback programme should further enhance shareholder value. The scale of the buyback programme is in line with Nestlé’s financial management objectives, which aim to retain flexibility.

Sales in Food and Beverages by geography

In the first half of 2007, the organic growth of Nestlé’s total Food and Beverages business (including globally-managed businesses such as Nestlé Waters, Nestlé Nutrition and Nespresso, as well as Food and Beverages joint ventures) amounted to 3.5% in **Europe**, 8.7% in the **Americas** and 10.5% in **Asia, Oceania and Africa**.

Zones: sales and profitability

Zone Europe: sales of CHF 13.6 billion, 0.9% real internal growth and 1.4% organic growth. The Zone continued to achieve double-digit growth in Eastern Europe. Growth in Western Europe was slow as the region focused on restoring margins, which showed a 50 basis points improvement. Confectionery experienced a notable performance improvement, particularly in the UK, and PetCare continued to do well. The Zone's efficiency programmes and restructuring also contributed. The launch of *Nescafé Dolce Gusto* in Western Europe at the end of 2006 started very well.

Zone Americas: sales of CHF 15.3 billion, 4.2% real internal growth and 7.4% organic growth. The Zone's EBIT margin increased by 80 basis points. There were good performances across the Zone, with both North and Latin America experiencing strong growth and the Ice cream and PetCare businesses also performing well. The successful implementation of price increases in categories most impacted by input costs, especially Milk products, improved the EBIT margin. However, cost pressures will be greater in the second half and are likely to affect the EBIT margin.

Zone Asia, Oceania and Africa: sales of CHF 8 billion, 6.9% real internal growth and 9.7% organic growth. The Zone's EBIT margin increased by 30 basis points. All the Zone's emerging markets (Asia, Africa and the Middle East) grew strongly. The Zone was also successful in achieving price increases in anticipation of the impact of rising milk costs. Together with efficiency improvements, this contributed to the Zone's better first half margin, although it too will face margin pressure as input costs escalate in the second half of the year.

Product groups: sales and profitability

Powdered and Liquid Beverages: 9.2% organic growth. *Nescafé* did well, with its mixes and the launch of *Nescafé Dolce Gusto* the catalysts for growth. There was double-digit growth from the three other "billionaire" brands, *Nespresso*, *Milo* and *Nestea*. *Milo* benefited from renovation which reinforced its nutritional credentials with consumers. High growth, efficiency improvements as well as selling price adjustments resulted in a strong, 60 basis points EBIT margin improvement for the category.

Nestlé Waters: 10.3% organic growth. This was mainly driven by North America, where *Nestlé Pure Life* experienced over 40% organic growth. Europe achieved reasonable growth, while the smaller businesses in regions such as the Middle East and Latin America enjoyed good performances. Despite increases in packaging costs, the category's EBIT margin improved by 10 basis points due to the scale benefits of growth in North America and cost efficiencies.

Milk products and Ice cream: 7.1% organic growth. Milk products responded well to a challenging cost environment in Asia, Africa and Latin America, with early selling price increases to defend margins ahead of rapidly escalating milk costs. The *CoffeeMate* "billionaire" brand continued to perform well. Ice cream started the year with reasonable growth, thanks to a strong innovation platform and winning initiatives in super-premium and health-focused offerings. Continued attention to manufacturing efficiencies and profitable growth contributed to the segment achieving a significant margin improvement. The EBIT margin for the total category was up 160 basis points, with all segments contributing.

Nestlé Nutrition: 10.5% organic growth. There were strong performances in the Infant formula and Healthcare Nutrition segments. This result is due to a robust innovation and renovation pipeline, including *NAN* premium starter formulas and *Cerelac* enriched with probiotics to strengthen infants' immune systems,

as well as continued business recovery in China. Since its acquisition in August 2006, Jenny Craig has performed well but, as expected, the acquisition caused a slight EBIT margin decline of 20 basis points for the category as a whole. Jenny Craig is, however, accretive to Group margins on an annualised basis.

Prepared dishes and cooking aids: 3.1% organic growth. This category only saw marginal price increases in the first half of the year, but experienced good volume growth in Culinary in emerging markets and in Chilled culinary in North America and parts of Europe. Frozen recipe dishes started the year slowly in Europe. In North America, *Lean Cuisine* continued to benefit from strong innovation and consumers' increasing focus on health. Growth in the North American Frozen food range is expected to accelerate in the second half of the year. The product group's EBIT margin declined by 40 basis points, reflecting tough competitive conditions in some markets and a realignment of internal costs.

Confectionery: 4.6% organic growth. Double-digit performances were sustained in emerging markets such as Brazil, South Asia, Venezuela and the Middle East. The category's focus on simplification, product range rationalisation and restructuring in industrialised markets contributed to an EBIT margin improvement of 120 basis points. The main contributors were the US and the UK. The UK strategy of focusing on key brands while rationalising smaller brands and underperforming ranges resulted in key brands gaining market share as well as delivering improved EBIT margins and working capital.

PetCare: 7.2% organic growth. Good performances were achieved by key strategic global and regional brands competing in the super premium and premium dry segments, such as *Dog Chow*, *Pro Plan* and *ONE*. The EBIT margin increased by 20 basis points due to pricing gains and portfolio mix improvements which more than offset higher input costs.

Pharmaceutical products: 11.0% organic growth. Both Alcon and the joint ventures achieved double-digit performances. The EBIT margin increased 130 basis points to 32.9%, mainly due to operational efficiencies and a positive product mix at Alcon.

Nutrition, health and wellness

Nestlé's strategic transformation into a nutrition, health and wellness company has continued apace. Sales of products containing Branded Active Benefits (BABs) grew by over 18% in the first half of the year, exceeding CHF 2.1 billion. The integration of Novartis Medical Nutrition into Nestlé Nutrition's Healthcare business started on 2 July and steps have been taken to ensure a speedy integration of Gerber as soon as the deal closes during the second half of the year. The addition of these businesses will create a Nutrition operation with annual sales of CHF 10 billion, the clear global leader.

Outlook

Nestlé's first half performance was helped by the scale benefits of strong volume growth as well as the positive impact of price increases ahead of higher input costs. In the second half of the year, these higher prices are likely to slow volume growth slightly, while the increasing impact of higher raw material costs, particularly milk, will heighten pressure on EBIT margins. Nonetheless, the strong start to the year allows Nestlé to expect above-target organic growth as well as a further sustainable improvement in margins for the full year.

Consolidated income statement for the period ended 30 June 2007

In millions of CHF	Notes	January/June 2007	January/June 2006 ^(a)
Sales	1	51 114	47 158
Cost of goods sold		(20 881)	(19 387)
Distribution expenses		(4 433)	(3 939)
Marketing and administration expenses		(17 986)	(16 970)
Research and development costs		(895)	(802)
EBIT Earnings Before Interest, Taxes, restructuring and impairments	1	6 919	6 060
Net other income/(expenses)	3	(157)	(100)
Profit before interest and taxes		6 762	5 960
Net financing cost			
Financial income		396	327
Financial expense		(687)	(685)
		(291)	(358)
Profit before taxes and associates		6 471	5 602
Taxes		(1 742)	(1 584)
Share of results of associates	4	543	465
Profit from continuing operations		5 272	4 483
Net profit/(loss) on discontinued operations	7	–	4
Profit for the period		5 272	4 487
of which attributable to minority interests		356	336
of which attributable to shareholders of the parent (Net profit)		4 916	4 151
As percentages of sales			
EBIT Earnings Before Interest, Taxes, restructuring and impairments		13.5%	12.9%
Profit for the period attributable to shareholders of the parent (Net profit)		9.6%	8.8%
Earnings per share from continuing operations (in CHF)			
Basic earnings per share		12.79	10.74
Fully diluted earnings per share		12.60	10.64

^(a) 2006 comparatives have been restated following the decision to transfer the fresh cheese activities in Italy to Nestlé Nutrition (refer to Note 7).

Consolidated balance sheet as at 30 June 2007

In millions of CHF	Notes	30 June 2007	31 December 2006	30 June 2006
Assets				
Current assets				
Liquid assets				
Cash and cash equivalents		5 398	5 278	4 681
Short term investments		5 260	6 197	6 680
		10 658	11 475	11 361
Trade and other receivables		15 584	14 577	14 070
Assets held for sale		4	74	643
Inventories		9 422	8 029	8 930
Derivative assets		881	556	561
Prepayments and accrued income		805	594	707
Total current assets		37 354	35 305	36 272
Non-current assets				
Property, plant and equipment				
Gross value		49 006	47 077	44 856
Accumulated depreciation and impairment		(27 991)	(26 847)	(26 155)
		21 015	20 230	18 701
Investments in associates		8 276	8 430	7 411
Deferred tax assets		2 611	2 433	2 599
Financial assets		2 983	2 778	2 582
Employee benefits assets		426	343	129
Goodwill		29 469	28 513	26 365
Intangible assets		4 012	3 773	2 975
Total non-current assets		68 792	66 500	60 762
Total assets		106 146	101 805	97 034

In millions of CHF	Notes	30 June 2007	31 December 2006	30 June 2006
Liabilities and equity				
Current liabilities				
Trade and other payables		12 307	12 572	11 365
Liabilities directly associated with assets held for sale		–	–	48
Financial liabilities	5	17 837	15 494	17 469
Tax liabilities		962	884	819
Derivative liabilities		625	470	543
Accruals and deferred income		3 336	3 059	3 042
Total current liabilities		35 067	32 479	33 286
Non-current liabilities				
Financial liabilities	5	6 223	6 952	7 351
Employee benefits liabilities		5 564	5 415	5 577
Deferred tax liabilities		951	706	477
Other payables		410	366	211
Provisions		3 080	3 039	3 032
Total non-current liabilities		16 228	16 478	16 648
Total liabilities		51 295	48 957	49 934
Equity				
Share capital ^(a)		393	401	401
Share premium and reserves				
Share premium ^(a)		5 883	5 926	5 926
Reserve for treasury shares ^(a)		3 240	4 550	4 303
Translation reserve		(3 986)	(5 205)	(5 701)
Retained earnings ^(a)		50 730	49 963	44 950
		55 867	55 234	49 478
Treasury shares ^(a)		(3 355)	(4 644)	(4 390)
Total equity attributable to shareholders of the parent		52 905	50 991	45 489
Minority interests		1 946	1 857	1 611
Total equity		54 851	52 848	47 100
Total liabilities and equity		106 146	101 805	97 034

^(a) At the Annual General Meeting on 19 April 2007, the shareholders approved the cancellation of 7 663 200 shares.

Consolidated cash flow statement for the period ended 30 June 2007

In millions of CHF	Notes	January/June 2007	January/June 2006 ^(a)
Operating activities			
Profit from continuing operations		5 272	4 483
Less share or results of associates		(543)	(465)
Depreciation of property, plant and equipment		1 327	1 265
Impairment of property, plant and equipment		43	(21)
Impairment of goodwill and intangible assets		254	8
Depreciation of intangible assets		273	210
Increase/(decrease) in provisions and deferred taxes		(14)	(338)
Decrease/(increase) in working capital		(2 061)	(1 605)
Other operating cash flows		(266)	(225)
Operating cash flow		4 285	3 312
Investing activities			
Capital expenditure		(1 731)	(1 489)
Expenditure on intangible assets		(300)	(406)
Sale of property, plant and equipment		128	34
Acquisition of businesses ^(b)	6	(1 091)	(3 998)
Disposal of businesses		319	323
Cash flows with associates		306	306
Other investing cash flows		97	(86)
Investing cash flow		(2 272)	(5 316)

^(a) 2006 comparatives have been restated. Operating activities now start with Profit from continuing operations (previously Profit before associates and discontinued operations).

^(b) 2006 comparatives include USD 2.6 billion relating to the Dreyer's acquisition that have been settled on 17 January 2006, mostly by decreasing marketable securities.

In millions of CHF	Notes	January/June 2007	January/June 2006
Financing activities			
Dividend paid to shareholders of the parent	8	(4 004)	(3 471)
Purchase of treasury shares		(338)	(1 924)
Sale of treasury shares and options		381	201
Cash flows with minority interests		(173)	(189)
Bonds issued	5	1 656	768
Bonds repaid	5	(1 348)	(1 196)
Increase in other non-current financial liabilities		57	39
Decrease in other non-current financial liabilities		(66)	(186)
Increase/(decrease) in current financial liabilities		1 055	2 478
Decrease/(increase) in short-term investments ^(a)		986	5 860
Other financing cash flows		1	2
Financing cash flow		(1 793)	2 382
<hr/>			
Translation differences on flows		(181)	(190)
Increase/(decrease) in cash and cash equivalents		39	188
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Cash and cash equivalents at beginning of year		5 278	4 658
Effects of exchange rate changes on opening balance		81	(165)
Cash and cash equivalents retranslated at beginning of year		5 359	4 493
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Cash and cash equivalents at end of period		5 398	4 681

^(a) 2006 comparatives include USD 2.6 billion relating to the Dreyer's acquisition that have been settled on 17 January 2006, mostly by decreasing marketable securities.

Consolidated statement of recognised income and expense and changes in equity

Statement of recognised income and expense for the period ended 30 June 2006

In millions of CHF	Share capital	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Less: Treasury shares	Total equity attributable to shareholders of the parent	Minority interests	Total equity
Profit for the period recognised in the income statement					4 151		4 151	336	4 487
Currency retranslations				(1 529)			(1 529)	(54)	(1 583)
Taxes on equity items					(31)		(31)		(31)
Fair value adjustments on available-for-sale financial instruments									
– Unrealised results					62		62		62
– Recognition of realised results in the income statement					(3)		(3)		(3)
Fair value adjustments on cash flow hedges									
– Recognised in hedging reserve					57		57		57
– Removed from hedging reserve					94		94		94
Changes in equity of associates					222		222		222
Equity-settled share-based transactions cost					107		107	16	123
Income and expense recognised directly in equity ^(a)				(1 529)	508		(1 021)	(38)	(1 059)
Total recognised income and expense as at 30 June 2006				(1 529)	4 659		3 130	298	3 428

^(a) The Group performs full pensions and retirement benefits reporting once a year, in December, at which point actuarial gains and losses for the period are determined.

Changes in equity for the period ended 30 June 2006

In millions of CHF	Share capital	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Less: Treasury shares	Total equity attributable to shareholders of the parent	Minority interests	Total equity
Equity restated as at 31 December 2005 as reported last year	404	5 926	2 616	(4 172)	45 494 ^(a)	(2 770)	47 498	1 570	49 068
Total recognised income and expense				(1 529)	4 659		3 130	298	3 428
Distributions to and transactions with shareholders of the parent									
Dividend for the previous year					(3 471)		(3 471)		(3 471)
Movement of treasury shares (net)			1 687		(1 687)	(1 721)	(1 721)		(1 721)
Result on options and treasury shares held for trading purposes					(96)	96	–		–
Equity-settled share-based transactions settlement					(2)	2	–		–
Reduction in share capital ^(b)	(3)					3	–		–
Premium on warrants issued ^(c)					53		53		53
Total distributions to and transactions with shareholders of the parent	(3)		1 687		(5 203)	(1 620)	(5 139)		(5 139)
Movements with minority interests (net)								(257)	(257)
Equity as at 30 June 2006	401	5 926	4 303	(5 701)	44 950 ^(a)	(4 390)	45 489	1 611	47 100

^(a) Includes a Hedging Reserve of CHF 245 million (31 December 2005: CHF 97 million).

^(b) At the Annual General Meeting on 6 April 2006, the shareholders approved the cancellation of 2 784 300 shares.

^(c) Since the investors have not exercised their option to put the notes related to the Turbo Zero Equity-Link bond issue at their accreted value, USD 47 million of premium on warrants issued are reclassified from current liabilities to retained earnings.

Statement of recognised income and expense for the period ended 30 June 2007

In millions of CHF	Share capital	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Less: Treasury shares	Total equity attributable to shareholders of the parent	Minority interests	Total equity
Profit for the period recognised in the income statement					4 916		4 916	356	5 272
Currency retranslations				1 219			1 219	31	1 250
Taxes on equity items					(70)		(70)		(70)
Fair value adjustments on available-for-sale financial instruments									
– Unrealised results					74		74		74
– Recognition of realised results in the income statement					(13)		(13)		(13)
Fair value adjustments on cash flow hedges									
– Recognised in hedging reserve					133		133		133
– Removed from hedging reserve					(35)		(35)		(35)
Changes in equity of associates					(611)		(611)		(611)
Equity-settled share-based transactions cost					129		129	16	145
Income and expense recognised directly in equity ^(a)				1 219	(393)		826	47	873
Total recognised income and expense as at 30 June 2007				1 219	4 523		5 742	403	6 145

^(a) The Group performs full pensions and retirement benefits reporting once a year, in December, at which point actuarial gains and losses for the period are determined.

Changes in equity for the period ended 30 June 2007

In millions of CHF	Share capital	Share premium	Reserve for treasury shares	Translation reserve	Retained earnings	Less: Treasury shares	Total equity attributable to shareholders of the parent	Minority interests	Total equity
Equity as at 31 December 2006 as reported last year	401	5 926	4 550	(5 205)	49 963 ^(a)	(4 644)	50 991	1 857	52 848
Total recognised income and expense				1 219	4 523		5 742	403	6 145
Distributions to and transactions with shareholders of the parent									
Dividend for the previous year					(4 004)		(4 004)		(4 004)
Movement of treasury shares (net) ^(b)			(167)		167	199	199		199
Result on options and treasury shares held for trading purposes					53	(53)	-		-
Equity-settled share-based transactions settlement			(4)		(23)	4	(23)		(23)
Reduction in share capital ^(c)	(8)	(43)	(1 139)		51	1 139	-		-
Total distributions to and transactions with shareholders of the parent	(8)	(43)	(1 310)		(3 756)	1 289	(3 828)		(3 828)
Movements with minority interests (net)								(314)	(314)
Equity as at 30 June 2007	393	5 883	3 240	(3 986)	50 730 ^(a)	(3 355)	52 905	1 946	54 851

^(a) Includes a Hedging Reserve of CHF 154 million (31 December 2006: CHF 56 million).

^(b) 440 202 Nestlé S.A. shares were exchanged with warrants related to the Turbo Zero Equity-Link issue for USD 130 million.

^(c) At the Annual General Meeting on 19 April 2007, the shareholders approved the cancellation of 7 663 200 shares.

Annex

Basis of preparation

These financial statements are the unaudited interim consolidated financial statements for the six-month period ended 30 June 2007. They have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the 2006 Consolidated Financial Statements.

Accounting policies

The accounting conventions and accounting policies are the same as those applied in the 2006 Consolidated Financial Statements.

Changes in accounting policies

The Group has adopted the following IFRS and IFRIC interpretations as from 1 January 2007 onwards:

IFRS 7 Financial Instruments: Disclosures

The Group has assessed the impact of IFRS 7 and amendments to IAS 1 and concluded that the main additional disclosures would be those for market risk assessment and capital management. IAS 34 does not specifically require disclosures in relation to IFRS 7 in the interim report. The Group will apply IFRS 7 and the amendments to IAS 1 in its 2007 Consolidated Financial Statements.

IFRIC Interpretations

IFRIC 9 Reassessment of Embedded Derivatives, IFRIC 10 Interim Financial Reporting and Impairment, and IFRIC 11 IFRS 2 — Group and Treasury Share Transactions do not have any effect on the financial position or performance of the Group.

None of the summarised new standards and interpretations has resulted in consequential changes in accounting policies and other note disclosures.

Changes in IFRSs that may affect the Group after 31 December 2007

The Group will adopt the following standards as from their effective dates:

IFRS 8 Operating Segments

This standard is effective for reporting periods beginning on or after 1 January 2009. The Group has assessed the impact of IFRS 8 and determined that this new standard should not significantly change its segments previously identified under IAS 14 Segment Reporting and, therefore, the Group will not adopt IFRS 8 early.

Revised IAS 23 Borrowing Costs

This revision is effective for reporting periods beginning on or after 1 January 2009. The revised standard removes the option of expensing borrowing costs directly attributable to acquisition, construction or production of a qualifying asset. Management is at present assessing the impact of the revised IAS 23 on the Group's operations as the Group currently expenses borrowing costs. The Group does not anticipate a significant impact.

Changes in presentation

Segmental information

Structure of management responsibilities may vary from one year to another. In such a case, segmental information is restated and aligned with the structure as at 1 January of the year under review, in order to present comparable information and be consistent with internal reporting.

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

In millions of CHF		Zone Europe	Zone Americas	Zone Asia, Oceania and Africa	Nestlé Waters	Nestlé Nutrition
January/June 2007	Segment revenues and results					
	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
	Other segment information					
	Impairment of segment assets	(1)	(1)	(5)	230	–
	Restructuring costs	103	13	10	50	23
January/June 2006 ^(c)	Segment revenues and results					
	Sales	12 805	14 577	7 495	4 815	2 790
	EBIT Earnings Before Interest, Taxes, restructuring and impairments	1 400	1 996	1 197	441	527
	Other segment information					
	Impairment of segment assets	3	(1)	5	(27)	–
	Restructuring costs	85	18	16	50	–

^(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

^(c) 2006 comparatives have been restated to reflect internal changes in management responsibility as of 1 January 2007, as well as the decision to transfer the fresh cheese activities in Italy to Nestlé Nutrition (refer to Note 7).

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

Other Food and Beverages ^(a)	Unallocated items ^(b)	Total Food and Beverages	Pharma	Total	
					Segment revenues and results
1 673		47 405	3 709	51 114	Sales
317	(846)	5 697	1 222	6 919	EBIT Earnings Before Interest, Taxes, restructuring and impairments
					Other segment information
5	-	228	69	297	Impairment of segment assets
1	-	200	-	200	Restructuring costs
					Segment revenues and results
1 297		43 779	3 379	47 158	Sales
220	(788)	4 993	1 067	6 060	EBIT Earnings Before Interest, Taxes, restructuring and impairments
					Other segment information
3	-	(17)	4	(13)	Impairment of segment assets
15	4	188	-	188	Restructuring costs

January/June 2007

January/June 2006 ^(c)

By product group

In millions of CHF		Beverages	Milk products, Nutrition and Ice cream	Prepared dishes and cooking aids	Confectionery ^(a)	
January/June 2007	Segment revenues and results					
	Sales	13 858	13 539	8 785	5 307	
	EBIT Earnings Before Interest, Taxes, restructuring and impairments	2 421	1 700	1 064	476	
	Other segment information					
	Impairment of segment assets	230	3	(1)	(5)	
	Restructuring costs	60	61	22	57	
	January/June 2006 ^(c)	Segment revenues and results				
		Sales	12 597	12 302	8 410	4 940
		EBIT Earnings Before Interest, Taxes, restructuring and impairments	2 164	1 371	1 052	383
		Other segment information				
Impairment of segment assets		(26)	6	(1)	6	
Restructuring costs		58	37	48	35	

^(a) Chocolate, sugar confectionery and biscuits

^(b) Mainly corporate expenses as well as research and development costs

^(c) 2006 comparatives have been restated following the decision to transfer the fresh cheese activities in Italy to Nestlé Nutrition (refer to Note 7).

PetCare	Pharmaceutical products	Total segments	Unallocated items ^(b)	Total	
					Segment revenues and results
5 916	3 709	51 114		51 114	Sales
882	1 222	7 765	(846)	6 919	EBIT Earnings Before Interest, Taxes, restructuring and impairments
					Other segment information
1	69	297	-	297	Impairment of segment assets
-	-	200	-	200	Restructuring costs
					Segment revenues and results
5 530	3 379	47 158		47 158	Sales
811	1 067	6 848	(788)	6 060	EBIT Earnings Before Interest, Taxes, restructuring and impairments
					Other segment information
(2)	4	(13)	-	(13)	Impairment of segment assets
6	-	184	4	188	Restructuring costs

January/June 2007

January/June 2006 ^(e)

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 2007	January/June 2006
Other expenses		
Loss on disposal of businesses	(29)	(19)
Restructuring costs	(200)	(188)
Impairment of property, plant and equipment	(43)	21
Impairment of goodwill and intangible assets	(254)	(8)
Other	(128)	(100)
	(654)	(294)
Other income		
Profit on sale of property, plant and equipment	127	16
Profit on disposal of businesses ^(a)	202	93
Other	168	85
	497	194
Net other income/(expenses)	(157)	(100)

^(a) Mainly resulting from the exercise of stock options by Alcon employees and related dilution on issuance of new shares

Impairment of goodwill

Goodwill related to the 2003 acquisition of Powwow has been allocated for the impairment test to the Cash Generating Unit (CGU) defined as the Nestlé Waters Home and Office Delivery (HOD) business in Europe. The carrying amounts of all goodwill items allocated to this CGU are expressed in various European currencies for an equivalent of CHF 1130 million as at 30 June 2007 (31 December 2006: CHF 1117 million).

The unfavourable evolution of the business in various countries, notably in the United Kingdom, together with the increase in interest rates since the beginning of the year have revealed possible signs of impairment. Consequently an impairment test was conducted during the first half of this year. The recoverable amount of the CGU being lower than its carrying amount, an impairment of goodwill amounting to CHF 210 million has been recognised as at 30 June 2007.

The recoverable amount of the CGU has been determined based upon a value-in-use calculation. Deflated cash flow projections covering the next 50 years, discounted at a weighted average rate of 5% (versus 4% in 2006), were used in this calculation. The cash flows for the first five years were based upon financial plans approved by Group Management; years six to ten were based upon Group Management's best expectations. Cash flows were assumed to increase by 1% for years 11 to 50, this growth rate being consistent with the expected long-term average growth of the HOD business in Europe. Cash flows have been adjusted to reflect the specific business risks.

Main assumptions, based on past experiences and current initiatives, were the following:

- Sales: growth between 0.5% (in 2008) and 5.3% (in 2009 and 2010), and between 4 and 4.2% in the six years afterwards;
- EBIT evolution: consistent with sales growth and enhanced cost management and efficiency, with a higher growth during the first three years and then steadily improving by 8–9% over the following years.

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. Bonds

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

January/June
2007

In millions of CHF

Issuer	Face value in millions	Interest rates		Year of issue/ maturity	Comments	
		Nominal	Effective			
New issues						
Nestlé Holdings, Inc., USA	USD 500	4.75%	4.90%	2007–2011	(a)	612
	CHF 250	2.63%	2.66%	2007–2018	(a)	247
	GBP 100	5.13%	5.53%	2007–2009	(a)	239
	CHF 200	2.75%	2.75%	2007–2010	(a)	198
	NOK 1000	4.75%	4.80%	2007–2010	(a)	197
	AUD 100	6.00%	6.62%	2007–2010	(a)	100
	HUF 10 000	6.88%	7.20%	2007–2010	(a)	63
Total new issues						1 656
Repayments						
Nestlé Holdings, Inc., USA	USD 500	4.75%	4.98%	2002–2007		616
	USD 300	5.13%	5.24%	2001–2007	(a)	370
	NOK 2000	5.25%	5.16%	2003–2007	(a)	351
Other						11
Total repayments						1 348

(a) Is/was subject to an interest rate and/or currency swap that creates/created a liability at floating rates in the currency of the issuer.

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

The issue has warrants attached which give the right to acquire Nestlé S.A. shares.

During the period 13 798 warrants were exercised. Notes valued at amortised cost of USD 130 million (nominal USD 138 million) were exchanged with 440 202 Nestlé S.A. shares.

6. Acquisition of businesses

The cash outflow of CHF 1091 million primarily relates 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.

The Group has recently announced the following principal acquisitions that will be effective only in the second half of the year:

Novartis Medical Nutrition

On 14 December 2006, the Group publicly announced that it has agreed to acquire Novartis Medical Nutrition for a total amount of USD 2.5 billion. Novartis Medical Nutrition achieved sales of about USD 950 million in 2006 and its business is complementary to Nestlé's healthcare nutrition division. The transaction was completed on 2 July 2007.

Gerber, USA

On 12 April 2007, the Group publicly announced its plan to acquire Gerber, the US baby food business, for a total amount of USD 5.5 billion. Gerber's sales are estimated at USD 1.95 billion for 2007. The transaction, which is expected to be completed during the second half of 2007, is subject to regulatory approval.

7. Discontinued operations

The discontinued operations in 2006 result from the transfer of the Chilled dairy activities in Europe to the new venture Lactalis Nestlé Produits Frais (LNPF) established with the French-based group Lactalis. The Group transferred these activities as at 1 November 2006.

As a result of discussions with the European Commission, the fresh cheese activities in Italy under the *MIO* brand, initially presented as part of the discontinued operations, were not transferred to LNPF, but were classified within Nestlé Nutrition. 2006 comparatives have been restated accordingly.

8. Dividends

The Company pays only one dividend in each financial year and does not pay interim dividends.

The following dividend related to 2006 has been paid on 25 April 2007 in conformity with the decision taken at the Annual General Meeting on 19 April 2007.

Dividend per share	CHF 10.40
resulting in a total dividend of ^(a)	CHF 4 003 540 569.60

^(a) On 384 955 824 shares with right to dividend

9. Contingent assets and liabilities

No significant changes in the Group's contingent assets and liabilities have occurred since the approval of the 2006 Consolidated Financial Statements by the Board of Directors.

10. Events after the balance sheet date

After the date of the closing the Group had no subsequent adjusting events that warrant a modification of the value of the assets and liabilities.

Principal exchange rates

CHF per		June 2007	December 2006	June 2006	January/June 2007	January/June 2006
		Ending rates			Average rates	
1 US Dollar	USD	1.232	1.222	1.233	1.226	1.267
1 Euro	EUR	1.656	1.609	1.567	1.632	1.564
1 Pound Sterling	GBP	2.466	2.400	2.259	2.417	2.274
100 Brazilian Reais	BRL	63.980	57.220	56.620	60.040	58.480
100 Japanese Yen	JPY	0.998	1.027	1.075	1.022	1.099
100 Mexican Pesos	MXN	11.400	11.250	10.890	11.240	11.660
1 Canadian Dollar	CAD	1.165	1.052	1.112	1.090	1.115
1 Australian Dollar	AUD	1.047	0.967	0.917	0.994	0.942
100 Philippine Pesos	PHP	2.663	2.492	2.320	2.573	2.440

Shareholder information

Stock exchange listings

Nestlé S.A. shares are listed on the SWX Swiss Exchange (ISIN code: CH0012056047). American Depositary Receipts (ADRs) (ISIN code: US6410694060) representing Nestlé S.A. shares are offered in the USA by Citibank.

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

As to information concerning the share register (registrations, transfers, address changes, dividends, etc.), please contact Nestlé S.A. (Share Transfer Office)
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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

18 October 2007
Announcement of first nine months 2007 sales figures;
Autumn Press Conference

21 February 2008
2007 Full Year Results;
Press Conference

10 April 2008
Annual General Meeting
"Palais de Beaulieu", Lausanne

