Good Food, Good Life

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Half-Yearly Financial Report

June 30, 2013

(Unaudited)

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

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NESTLÉ HOLDINGS, INC.
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June 30, 2013 and 2012

Management Report

Nestlé Holdings, Inc. ("NHI") (hereinafter, together with its subsidiaries, referred to as the "Company") is a wholly owned subsidiary of NIMCO US, Inc., which is an indirectly wholly owned subsidiary of Nestlé S.A., incorporated in Switzerland, which is the holding company of the Nestlé group of companies (hereinafter, referred to as the "Nestlé Group"). NHI is the holding company for Nestlé S.A.'s principal operating subsidiaries in the United States, other than Nestlé Waters North America Inc., Prometheus Laboratories Inc., and Nestlé Health Science-Pamlab, Inc. The Company manufactures food and beverages with a strategic focus on the areas of nutrition, health, and wellness. Its products are distributed primarily in the United States.

Key Figures

		2013	2012 [(a)]	Change
		(Dollars in millions)		
Sales	$	10,144.3	9,963.3	1.8%
Growth excluding acquisitions and divestures		1.8%	1.8%	
Growth excluding acquisitions/divestures and pricing		2.0%	(1.5)%	
Cost of goods		(5,563.2)	(5,545.1)	0.3%
as a percentage of sales		(54.8)%	(55.7)%	
Trading operating profit		1,154.3	1,052.4	9.7%
as a percentage of sales		11.4%	10.6%	
Net financing costs		(158.5)	(232.9)	(31.9)%
Income tax expense		(426.6)	(197.5)	116.0%
Net income		585.0	615.0	(4.9)%
as a percentage of sales		5.8%	6.2%	
Operating cash flows		767.7	500.1	53.5%
as a percentage of sales		7.6%	5.0%	
Capital expenditures		210.4	252.8	(16.8)%
as a percentage of sales		2.1%	2.5%	

[(a)] 2012 comparatives have been restated following the implementation of IAS 19 revised (Note 11).

Overview

The U.S. economy in the first six months of 2013 continued to be adversely impacted by concerns over the labor market, where unemployment remained high compared with pre-recession levels. Consumer spending continued to be influenced by low consumer confidence which remained below historical levels. Despite these economic challenges, the Company has delivered solid sales and improvements in trading operating profit. This performance is due to the ongoing execution of its proven strategies, combined with the successful implementation of operational efficiencies through the Nestlé Continuous Excellence cost savings program. The Company has increased investment in its brands, people and capabilities and has prepared for further challenges in the future.

Sales

For the first six months ending June 30, 2013 and 2012, consolidated sales totaled $10.1 billion and $10.0 billion, respectively. The main factors per segment are as follows:

- **Nestlé USA Brands** sales were $4.6 billion for the six months ending June 30, 2013 and 2012. The segment trends remained broadly unchanged from the same period last year. The frozen food category saw growth in *Stouffer's* frozen entrees and a gain in market share for *DiGiorno* pizza, but continued to experience contraction in the nutritional product groups where *Lean Cuisine* is included. *Nescafé, Coffee-Mate,* and confectionery continued to perform well. Growth in ice cream was driven by super-premium products. Recent product innovations have been well received, including *Häagen-Dazs Gelato* and *DiGiorno Pizzeria.* Some prominent brands in this segment include *Coffee-Mate, Juicy Juice, Nesquik, Stouffer's, DiGiorno, Lean Cuisine, Nestlé Crunch, Nestlé Toll House,* and *Dreyer's/Edy's*.
- **Nestlé Purina PetCare** sales were $3.4 billion and $3.2 billion for the six months ending June 30, 2013 and 2012, respectively. Sales in PetCare continued to grow primarily due to growth in sales of cat food. Some notable brands in this segment include *Beneful, Alpo, Purina ONE, Purina Dog Chow, Mighty Dog, Friskies,* and *Purina Cat Chow*.
- **Nutrition** sales were $1.2 billion for the six months ending June 30, 2013 and 2012. There was growth due to product innovation in both the premium and value segments of infant formula products, good performance in *Gerber* puree pouches within meals and drinks and growth in the life insurance business. However, this was offset by the weight management business continuing to underperform. Notable brands in this segment are *Gerber, Jenny Craig,* and *Powerbar*.
- **Other** business sales were $1.0 billion and $0.95 billion for the six months ending June 30, 2013 and 2012, respectively. There was growth in the Nestlé Health Science business, the Nestlé Professional business, and the *Nespresso* brand coffee.

Profitability

Trading operating profit was $1.2 billion and $1.1 billion for the six months ending June 30, 2013 and 2012, respectively. Despite the continued challenging economic conditions in the United States, the Company was still able to deliver growth in trading operating profit. The major contributors to this performance are higher sales and a reduction in marketing and distribution expenses, partially offset by higher other trading expenses.

Cost of goods sold was $5.6 billion and $5.5 billion for the six months ending June 30, 2013 and 2012, respectively. The increase was primarily due to higher sales, partially offset by a decrease in fixed overhead expenses.

Distribution expenses were $0.9 billion and $1.0 billion for the six months ending June 30, 2013 and 2012, respectively. The decline was due to a decrease in warehousing and supply expenses.

Marketing, general and administrative expenses were $1.8 billion for the six months ending June 30, 2013 and 2012. There was a decrease in these expenses as a percentage of sales from 18.5% in 2012 to 17.5% in 2013 primarily due to decreases in marketing and media communication, information technology and system costs, and other general expenses.

Net other trading expenses were $150.6 million and $(8.6) million for the six months ending June 30, 2013 and 2012, respectively. The increase was primarily due to increases in restructuring expenses and litigation and onerous contracts.

Net Income – Other Items of Interest

Net financing costs decreased by $74.4 million in the first six months of 2013 in comparison to the same period last year, primarily due to lower borrowings.

The Company's income tax expense increased by $229 million in the first six months of 2013 in comparison to the same period last year, primarily as a result of adjustments to prior years' taxes and an increase in pre-tax profit.

Cash Flow

Operating cash flow increased from $0.5 billion in the six months ending June 30, 2012 to $0.8 billion in the six months ending June 30, 2013. The change is primarily due to the decrease in cash used for working capital, resulting from higher trade and other payables and accruals, partially offset by higher inventories.

Principal Risks and Uncertainties

In the course of its business, the Company is exposed to certain risks and uncertainties: risk of damage to consumer trust, credit risk, liquidity risk, market risk (including foreign currency and interest rate), commodity price risk, risk of disruption of supplies, settlement risk and other risks. The Company believes that its principal risks and uncertainties for the remaining six months of the financial year have not changed since the issuance of the 2012 NHI Annual Financial Report. The detailed discussion of these risks and uncertainties and the Company's objectives, policies and processes for managing these risks and uncertainties were disclosed in the Management Report section of 2012 NHI Annual Financial Report, under the heading Principal Risks and Uncertainties.

Outlook

The purchasing power of U.S. consumers continues to be affected by a fear of layoffs, high unemployment, a loss of wealth, and economic uncertainty. Given the current pace of job additions, it will likely take some time to restore the U.S. labor market to stronger levels.

Although the economic outlook is challenging, there are opportunities to leverage the Company's competitive advantages, deliver on growth opportunities, and benefit from the drive for continuous improvement. The Company is committed to supporting the Nestlé Group in achieving its financial objectives including organic growth around 5%, improvement in margins and underlying earnings per share, as well as improvement in capital efficiency.

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

June 30, 2013 and 2012

Responsibility Statement

Steve Presley, Chief Financial Officer, confirms that to the best of his knowledge:

(a) the financial statements, which have been prepared in accordance with IAS 34, give a true and fair view of the assets, liabilities, financial position and profit or loss of NHI, or the undertakings included in the consolidation taken as a whole as required by DTR 4.2.4; and

(b) the interim management report includes a fair review of the information required by DTR 4.2.7.

August 22, 2013

NESTLÉ HOLDINGS, INC.
AND SUBSIDIARIES

Consolidated Balance Sheet

As of June 30, 2013, December 31, 2012 and June 30, 2012

(Dollars in thousands, except capital stock par value and shares)

(Unaudited)

Assets		June 30, 2013	December 31, 2012 [(a)]	June 30, 2012 [(a)]
Current assets:				
Cash and cash equivalents	$	436,874	821,205	273,720
Short-term investments		4,644	4,897	5,258
Trade and other receivables, net		3,574,622	2,675,058	2,501,897
Inventories, net		1,924,471	1,559,927	1,880,132
Derivative assets		255,698	414,656	451,574
Assets held for sale		17,163	16,214	18,012
Prepayments		110,077	92,153	136,185
Total current assets		6,323,549	5,584,110	5,266,778
Non-current assets:				
Property, plant and equipment, net		4,911,222	4,984,635	4,780,701
Employee benefits assets		323,046	36,528	42,758
Investments in associated companies		10,540	6,645	15,786
Deferred tax assets		996,712	1,187,814	1,283,879
Financial assets		3,406,076	3,436,526	3,262,314
Goodwill		18,721,071	18,712,591	18,712,591
Intangible assets, net		977,316	956,089	928,555
Total non-current assets		29,345,983	29,320,828	29,026,584
Total assets	$	35,669,532	34,904,938	34,293,362
Liabilities and Equity				
Current liabilities:				
Trade and other payables	$	1,367,627	1,274,645	1,244,944
Financial liabilities		8,625,128	8,746,401	11,122,138
Provisions		90,550	103,198	94,473
Derivative liabilities		247,301	285,669	355,979
Accruals		1,300,355	1,360,127	1,020,314
Total current liabilities		11,630,961	11,770,040	13,837,848
Non-current liabilities:				
Financial liabilities		6,663,050	6,368,140	8,651,016
Employee benefits liabilities		1,886,741	2,257,480	2,265,427
Deferred tax liabilities		1,959,993	1,964,724	1,792,582
Provisions		77,732	66,733	81,432
Other accrued liabilities		1,877,474	1,703,503	1,772,761
Total non-current liabilities		12,464,990	12,360,580	14,563,218
Total liabilities		24,095,951	24,130,620	28,401,066
Equity:				
Capital stock, $100 par value. Authorized, issued, and outstanding, 1,000 shares		100	100	100
Additional paid-in capital		5,359,297	5,350,353	1,650,353
Other equity reserves		(991,793)	(1,197,126)	(1,318,090)
Accumulated earnings		7,205,977	6,620,991	5,559,933
Total equity		11,573,581	10,774,318	5,892,296
Total liabilities and equity	$	35,669,532	34,904,938	34,293,362

[(a)] 2012 comparatives have been restated following the implementation of IAS 19 revised (Note 11).

See accompanying notes to consolidated interim financial statements.

NESTLÉ HOLDINGS, INC.
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Consolidated Income Statement

For the Six-month Period Ended June 30, 2013 and 2012

(Dollars in thousands)

(Unaudited)

	Note		2013	2012 [a]
Sales		$	10,144,340	9,963,316
Cost of goods sold			(5,563,210)	(5,545,092)
Distribution expenses			(938,239)	(969,348)
Marketing, general and administrative expenses			(1,775,136)	(1,847,203)
Royalties to affiliated company			(562,883)	(557,813)
Net other trading (expenses) income	6		(150,575)	8,558
Trading operating profit			1,154,297	1,052,418
Net other operating income (expenses)	6		10,710	(10,765)
Operating profit			1,165,007	1,041,653
Net financing costs	7		(158,499)	(232,910)
Share of results from associated companies			4,096	2,935
Income from continuing operations before income taxes			1,010,604	811,678
Income tax expense	8		(426,567)	(197,484)
Income from continuing operations			584,037	614,194
Income from discontinued operations, net of taxes			949	766
Net income		$	584,986	614,960

[a] 2012 comparatives have been restated following the implementation of IAS 19 revised (Note 11).

See accompanying notes to consolidated interim financial statements.

NESTLÉ HOLDINGS, INC.
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Consolidated Statement of Comprehensive Income

For the Six-month Period Ended June 30, 2013 and 2012

(Dollars in thousands)

(Unaudited)

		2013	2012 [a]
Net income	$	584,986	614,960
Other comprehensive income (loss):			
Fair value adjustments on cash flow hedges:			
Recognized in other equity reserves		69,750	(25,694)
Removed from other equity reserves		54,687	32,499
Income taxes on fair value adjustments on cash flow hedges		(48,529)	(2,652)
		75,908	4,153
Fair value adjustments on available-for-sale financial instruments:			
Unrealized results		(180,572)	12,917
Recognition of realized results in the income statement		17,160	16,763
Income taxes on changes in fair value of available-for-sale assets		57,198	(10,406)
		(106,214)	19,274
Foreign currency translation differences for foreign operations		(1,526)	(124)
Total items that are or may be reclassified subsequently to the income statement		(31,832)	23,303
Defined benefit plan actuarial gain (loss)		388,796	(196,021)
Income taxes on defined benefit plan actuarial (gain) loss		(151,631)	76,496
Total items that will never be reclassified to the income statement		237,165	(119,525)
Other comprehensive income (loss)		205,333	(96,222)
Total comprehensive income	$	790,319	518,738

[a] 2012 comparatives have been restated following the implementation of IAS 19 revised (Note 11).

NESTLÉ HOLDINGS, INC.
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Consolidated Statement of Changes in Equity

For the Six-month Period Ended June 30, 2013 and 2012

(Dollars in thousands)

(Unaudited)

	Capital stock	Additional paid-in capital	Other equity reserves	Accumulated earnings	Total
Balance at January 1, 2012 [a]	$ 100	1,650,353	(1,221,868)	4,944,973	5,373,558
Net income [a]	—	—	—	614,960	614,960
Other comprehensive income (loss) [a]:					
Fair value adjustments on cash flow hedges	—	—	6,805	—	6,805
Net change in fair value of available-for-sale assets	—	—	29,680	—	29,680
Foreign currency translation differences for foreign operations	—	—	(124)	—	— (124)
Defined benefit plan actuarial loss	—	—	(196,021)	—	(196,021)
Taxes on other comprehensive loss	—	—	63,438	—	63,438
Total other comprehensive loss	—	—	(96,222)	—	(96,222)
Total comprehensive income (loss)	—	—	(96,222)	614,960	518,738
Balance at June 30, 2012	100	1,650,353	(1,318,090)	5,559,933	5,892,296
Balance at December 31, 2012 [a]	100	5,350,353	(1,197,126)	6,620,991	10,774,318
Net income	—	—	—	584,986	584,986
Other comprehensive income (loss):					
Fair value adjustments on cash flow hedges	—	—	124,437	—	124,437
Net change in fair value of available-for-sale assets	—	—	(163,412)	—	(163,412)
Foreign currency translation differences for foreign operations	—	—	(1,526)	—	(1,526)
Defined benefit plan actuarial gain	—	—	388,796	—	388,796
Taxes on other comprehensive income	—	—	(142,962)	—	(142,962)
Total other comprehensive income	—	—	205,333	—	205,333
Total comprehensive income	—	—	205,333	584,986	790,319
Capital contribution	—	8,944	—	—	8,944
Balance at June 30, 2013	$ 100	5,359,297	(991,793)	7,205,977	11,573,581

[a] 2012 comparatives have been restated following the implementation of IAS 19 revised (Note 11).

NESTLÉ HOLDINGS, INC.
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Consolidated Statement of Cash Flows
For the Six-month Period Ended June 30, 2013 and 2012
(Dollars in thousands)
(Unaudited)

	Note(s)	2013	2012 [(a)]
Cash flows from operating activities:			
Net income		$ 584,986	614,960
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant, and equipment		270,380	261,869
Loss on sales of property, plant and equipment		5,414	6,470
Impairment of property, plant and equipment		3,624	(665)
Amortization of intangible assets		65,286	65,399
Gain on disposal of assets held for sale and other		(10,603)	(121)
Increase in cash surrender value of Company-owned life insurance policies		(24,515)	(23,391)
Decrease in provisions		(1,649)	(19,251)
Increase (decrease) in deferred income taxes		186,371	(52,497)
Change in working capital (excluding effects from acquisitions and divestitures):			
Trade and other receivables, net		61,693	92,491
Inventories, net		(365,495)	(256,270)
Prepayments and other current assets		(18,228)	(35,698)
Trade and other payables and other liabilities		634,524	242,806
Accruals		(224,174)	(414,297)
Increase (decrease) in working capital		88,320	(370,968)
Taxes on other comprehensive (income) loss		(142,962)	63,438
Share of results from investments in associated companies		(5,045)	(3,701)
Dividends from associated companies		201	216
Non-monetary movements on financial assets and liabilities		52,104	15,311
Movements of trading derivatives		1,961	10,848
Movements of operating derivatives		(37,739)	(13,355)
Other employee benefits, net		(268,461)	(54,464)
Total adjustments		182,687	(114,862)
Net cash provided by operating activities		767,673	500,098
Cash flows from investing activities:			
Expenditure on property, plant and equipment		(210,377)	(252,824)
Proceeds from sale of property, plant and equipment		2,992	2,891
Disposals of assets held for sale and other		12,258	3,071
Expenditure on intangible assets		(86,513)	(85,079)
Investments in non-current financial assets		(125,843)	(104,496)
Other movements		420	254
Net cash used in investing activities		(407,063)	(436,183)
Cash flows from financing activities:			
Net (repayment) borrowings of commercial paper		(620,671)	314,904
Net borrowings (repayment) of line of credit		28,594	(82,049)
Bonds issued	5	1,280,803	896,463
Bonds repaid	5	(275,008)	—
Loans to affiliates (issued) repaid, net	10	(1,162,881)	335,973
Notes to affiliates issued	10	—	300,000
Notes to affiliates repaid	10	—	(1,750,000)
Cash movement on derivatives hedging bond principal, net		547	—
Other changes in financial liabilities		5,201	2,659
Net cash (used in) provided by financing activities		(743,415)	17,950
Net (decrease) increase in cash and cash equivalents		(382,805)	81,865
Cash and cash equivalents at beginning of the period		821,205	191,979
Effect of exchange rate changes on opening balances		(1,526)	(124)
Cash and cash equivalents at end of the period		$ 436,874	273,720
Supplemental information:			
Cash paid for:			
Interest		$ 101,843	183,785
Taxes		141,593	374,133

[(a)] 2012 comparatives have been restated following the implementation of IAS 19 revised (Note 11).

See accompanying notes to consolidated financial statements.

(1) Accounting Policies

Basis of Preparation

These financial statements are the unaudited consolidated interim financial statements of Nestlé Holdings Inc. ("NHI") (hereinafter, together with its subsidiaries, referred to as the "Company") for the six-month period ended June 30, 2013. They have been prepared in accordance with *International Accounting Standard (IAS) 34 – Interim Financial Reporting*, and should be read in conjunction with NHI's consolidated financial statements for the year ended December 31, 2012.

The accounting conventions and accounting policies are the same as those applied in NHI's consolidated financial statements for the year ended December 31, 2012, except for those mentioned below, in the section 'Changes in accounting policies'.

The preparation of NHI's consolidated 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 consolidated interim financial statements remain the same as those applied to NHI's consolidated financial statements for the year ended December 31, 2012.

Changes in accounting policies

The Company has applied the following new International Financial Reporting Standards (IFRS) and revised International Accounting Standard (IAS) from January 1, 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 Company 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 did not have a material impact on the Company's consolidated financial statements.

IFRS 11 – Joint Arrangements

This standard establishes principles for the financial reporting by parties to a joint arrangement. The standard affected the Company's accounting for companies over which the Company 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 Company's main joint arrangement, Beverage Partners Worldwide North America (BPWNA), which is classified as a joint venture under IFRS 11 and is therefore accounted for using the equity method in accordance with the provisions of the amended IAS 28 (Investments in Associates and Joint Ventures). As the interest in BPWNA was already accounted for under the equity method under IAS 31 – Interest in Joint Ventures, there was no impact on the Company's financial statements.

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 Company will modify its disclosures accordingly at year-end.

IFRS 13 – Fair Value Measurement

This standard applies when other IFRS requires or permits 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. The Company has applied the standard prospectively, in accordance with the transitional provisions and did not have a material impact on the Company's consolidated financial statements. Due to the consequential adjustments in IAS 34, the Company 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 interests costs on the defined benefit obligation with a single net interest component. This net interest component will be calculated by applying the discount rate to the net defined benefit liability (or asset) and is now recognized within net financing costs;
- the immediate recognition of all past service costs.

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

The Company is applying IAS 19 Revised 2011 retrospectively and June 30, 2012 comparatives have been restated where required for all of these changes. The main impact for the six-month period ending June 30, 2012 was a decrease in operating profit of $49,091, increase in net financial expense of $25,260 and a decrease in profit for the period of $44,349.

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 Company has modified its disclosures accordingly. None of these amendments had a material effect on the Company's consolidated 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 11.

Changes in IFRS that may affect the Company after June 30, 2013

The following new standards and amendments to existing standards have been published and are mandatory for accounting periods beginning on January 1, 2014, unless otherwise stated. The Company 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 Company'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 Company'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 Company does not have any such liabilities. This standard is effective for the accounting period beginning on January 1, 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 Company's consolidated financial statements.

(Dollars in thousands)

(2) Segmental Information

Segmental information is as follows:

		Brands [a]	PetCare	Nutrition [a]	Other [a]	Total
2013						
Sales	$	4,595,099	3,351,540	1,193,515	1,005,815	10,145,969
Trading operating profit [b]		418,338	546,095	124,651	66,813	1,155,897
2012 [c]						
Sales	$	4,613,565	3,198,789	1,202,090	951,335	9,965,779
Trading operating profit [b]		301,489	556,108	169,030	13,804	1,040,431

[a] Nestlé USA Brands primarily consists of beverage, prepared foods, ice cream, confections and snacks, and other food products. Nutrition primarily consists of baby foods and performance-related food products. Other consists of Nestlé Professional, Nespresso, and Nestlé Health Sciences, which do not meet the criteria for separate disclosure.

[b] The Company determines trading operating profit by allocating corporate expenses to its operating segments based on activity-based cost drivers.

Reconciliation of total segment trading operating profit to income from continuing operations before income taxes is as follows:

		2013	2012 [c]
Total segment trading operating profit	$	1,155,897	1,040,431
Intangibles amortization		(1,596)	13,334
Provisions for onerous lease contracts		—	(1,315)
Other		(4)	(32)
Trading operating profit		1,154,297	1,052,418
Classify franchising income (expense) as other income		(1,629)	(2,445)
Net other operating income (expense)		12,339	(8,320)
Operating profit		1,165,007	1,041,653
Net financing costs		(158,499)	(232,910)
Share of results from associated companies		4,096	2,935
Income from continuing operations before income taxes	$	1,010,604	811,678

[c] 2012 comparatives have been restated following the implementation of IAS 19 revised (Note 11).

(Dollars in thousands)

(3) Seasonality

The Company's businesses are subject to the effects of slight seasonality. This is primarily concentrated in the Nestlé USA Brands segment, with more demand in the second half of the year during the holiday season. Trading operating profit margins have historically improved in the second half of the year due to increased absorption of fixed costs directly related to the increase in second half sales. Consequently, the operating results for the six months ended June 30, 2013 are not necessarily indicative of results to be expected for the full year.

(4) Fair Value Hierarchy of Financial Instruments

		2013
Bonds	$	42,916
Equity instruments		55,605
Other financial assets		4,644
Derivative assets		14,632
Derivative liabilities		(17,188)
Prices quoted in active markets (Level 1)		100,609
Bonds and debt funds		2,234,815
Equity and equity funds		247,040
Other financial assets		493,973
Investment funds		10,674
Derivative assets		241,066
Derivative liabilities		(230,113)
Valuation techniques based on observable market data (Level 2)		2,997,455
Bonds		21,468
Equity instruments		2,446
Investment Funds		—
Other financial assets		100,851
Valuation techniques based on unobservable input (Level 3)		124,765
Total financial instruments at fair value	$	3,222,829

The fair values categorized 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 June 30, 2013, the carrying amount of bonds issued is $5,753 million, compared to a fair value of $5,758 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.

(Dollars in thousands)

(5) Bonds

The following bonds were issued and repaid by NHI under the Debt Issuance Programme (DIP). The DIP was established by NHI and Nestlé Finance International Ltd., both of which are issuers under this programme.:

Face Value	Comments	Interest Rate Nominal	Interest Rate Effective	Year of Issue/ Maturity		Issued
New issues:						
AUD 175,000	(b)	3.75%	3.84%	2013 - 2018	$	183,335
USD 400,000	(a)	1.38%	1.50%	2013 - 2018		397,304
AUD 200,000	(c)	3.88%	4.08%	2013 - 2018		205,394
USD 500,000	(a)	2.00%	2.17%	2013 - 2019		494,770
Total new issues					$	1,280,803
Repayments:						
USD 150,000	(a)	2.00%	2.24%	2009 - 2013	$	(150,000)
USD 125,000	(d)	2.00%	2.29%	2009 - 2013		(125,000)
Other						(8)
Total repayments					$	(275,008)

[a] Not subject to an interest rate or currency swap.

[b] Subject to an interest rate and currency swap that creates a U.S. dollar liability at floating rates.

[c] Subject to an interest rate and currency swap that creates a U.S. dollar liability at fixed rates.

[d] Subject to an interest rate swap that creates a U.S. dollar liability at floating rates.

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(6) Net Other Trading and Operating Income/(Expenses)

Net other trading income/(expense) is as follows:

		2013	2012 [a]
Return on company-owned life insurance	$	25,410	22,366
Product recall recovery		5,400	—
Franchise and royalty income		2,749	8,955
Reversal of restructuring		—	4,060
Profit on disposal of property, plant and equipment		—	665
Miscellaneous trading income		445	2,962
Other trading income		34,004	39,008
Litigation and onerous contracts [b]		(106,280)	(7,146)
Restructuring expense		(48,411)	—
Losses (or cost) on deferred compensation		(24,590)	(22,185)
Impairment of assets other than goodwill		(3,624)	—
Miscellaneous trading expenses		(1,674)	(1,119)
Other trading expenses		(184,579)	(30,450)
Net other trading (expenses)/income	$	(150,575)	8,558

Net other operating income/(expense) is as follows:

		2013	2012 [a]
Gain on business divestitures	$	10,603	167
Dividend income		1,708	—
Miscellaneous operating income		23	110
Other operating income		12,334	277
Other operating litigations		(920)	(1,062)
Acquisition related costs		(246)	(284)
Natural disaster		(197)	—
Miscellaneous operating expenses		(261)	(9,696)
Other operating expenses		(1,624)	(11,042)
Net other operating income/(expenses)	$	10,710	(10,765)

[a] 2012 comparatives have been restated following the implementation of IAS 19 revised (Note 11).
[b] Relating principally to a number of separate legal cases, liabilities linked to voluntary product withdrawals, and various separate onerous contracts.

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(7) Net Financing Costs

Net financing costs are as follows:

		2013	2012 [(a)]
Interest income	$	7,672	16,520
Finance income		7,672	16,520
Interest expenses		(165,056)	(248,717)
Unwind of the discount on provisions		(1,218)	(754)
Other		103	41
Finance expense		(166,171)	(249,430)
Total net financing cost	$	(158,499)	(232,910)

Interest expense on amounts due to affiliated and associated companies and bond and commercial paper guarantee fees to Nestlé S.A. amounted to $(41,323) and $(127,639) in 2013 and 2012, respectively. Interest income on amounts due from affiliated and associated companies amounted to $5,719 and $3,344 in 2013 and 2012, respectively.

[(a)] 2012 comparatives have been restated following the implementation of IAS 19 revised (Note 11).

(8) Income Taxes

Reconciliation of income from continuing operations before income taxes multiplied by the applicable tax rate to income tax expense is as follows:

		2013	2012 [(a)]
Tax at theoretical rate	$	(390,380)	(312,083)
Tax effect on non-deductible amortization of goodwill and other intangible assets		-	(50)
Permanent differences on company-owned life insurance policies		12,057	12,611
Tax effect on non-allowable items		17,812	3,179
Prior years' tax		(65,000)	100,000
Other taxes		(1,056)	(1,141)
Income tax expense	$	(426,567)	(197,484)
Effective tax rate		42%	24%

[(a)] 2012 comparatives have been restated following the implementation of IAS 19 revised (Note 11).

(Dollars in thousands)

(9) Events after the Balance Sheet Date

Other than the following, the Company was not aware of specific events or transactions occurring after June 30, 2013, and up to the date of the Half-Yearly Financial Report that would have a material impact on the presentation of the accompanying consolidated interim financial statements.

On July 15, 2013, Nestlé Purina PetCare Company, a subsidiary of NHI, completed the acquisition of Petfinder, the largest website for pet adoption, from Discovery Communications, at a purchase price of approximately $28 million.

(10) Transactions with Related Parties

		2013	2012
Loans from Nestlé S.A.:			
At January 1	$	1,850,384	7,700,000
Loans received during year		-	300,000
Loan repayments		(286)	(1,750,000)
At June 30	$	1,850,098	6,250,000
Loans from affiliates:			
At January 1	$	326,283	300,000
Loans received during year		12,589	-
Loan repayments		(448)	-
At June 30	$	338,424	300,000
Loans to affiliates:			
At January 1	$	744,548	1,214,049
Loans granted during year		1,162,881	60,991
Loan repayments		-	(396,964)
At June 30	$	1,907,429	878,076

The above loans with related parties are in the trade and other receivables and non-current financial liabilities balances of the consolidated balance sheet.

On March 31, 2013, the Company's parent, NIMCO US, Inc., contributed the equity of Vitaflo USA, LLC to the Company (Note 12).

(Dollars in thousands)

(11) Restatements of 2012 Comparatives

Following the implementation of *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 consolidated income statement, consolidated statement of comprehensive income, and consolidated statement of cash flows are the following:

Consolidated Income Statement		**Restated**	**As Originally Published**
Sales	$	9,963,316	9,963,316
Trading operating profit		1,052,418	1,101,509
Operating profit		1,041,653	1,090,744
Income from continuing operations before income taxes		811,678	886,029
Net income		614,960	659,309
Consolidated Statement of Comprehensive Income			
Profit for the period recognized in the income statement	$	614,960	659,309
Other comprehensive loss for the period		(96,222)	(142,702)
Total comprehensive income for the period	$	518,738	516,607
Consolidated Statement of Cash Flows			
Operating cash flow	$	500,098	499,868

(12) Acquisition of Business

On March 31, 2013, the Company's parent, NIMCO US, Inc., contributed the equity of Vitaflo USA, LLC (Vitaflo) to the Company in the amount of $8,944. The goodwill arising from the contribution is $8,480. Vitaflo markets innovative clinical nutrition products for the treatment of rare inherited metabolic disorders, pediatric renal disease and disease related malnutrition. Sales and net income for the period are not significantly impacted by this acquisition.

(13) Employee Benefits

In May 2013, the Company announced changes to the benefits payable under the post-employment medical benefit plans which reduced the employee benefit liabilities balance in the amount of $151,489 due to negative past service costs.