Good Food, Good Life

NESTLÉ HOLDINGS, INC.
(A Wholly Owned Subsidiary of Nestlé S.A.)
AND SUBSIDIARIES

Half-Yearly Financial Report

(unaudited)

June 30, 2009

Contents

NESTLÉ HOLDINGS, INC.
(A Wholly Owned Subsidiary of Nestlé S.A.)
AND SUBSIDIARIES

Half-Yearly Financial Report

Management Report

Nestlé Holdings, Inc. (“NHI”) (hereinafter, together with its subsidiaries, referred to as “the Company”) is a wholly owned subsidiary of Nestlé S.A., incorporated in Switzerland, which is the holding company of the Nestlé group of companies. NHI is the holding company for Nestlé S.A.’s principal operating subsidiaries in the United States, other than Nestlé Waters North America, Inc. and Alcon Laboratories, Inc. NHI was incorporated in the State of Delaware in 1983 under registration number 830330118. NHI is a corporation and has unlimited duration. The address of the registered office of NHI is 1209 Orange Street, Wilmington, Delaware 19801.

The Company manufactures food and beverages as well as products related to the nutrition, health and wellness industries and distributes its products primarily in the United States of America. Such products include: soluble coffee, chocolate-based drinks, dairy products, infant nutrition, healthcare nutrition, performance nutrition, ice cream, frozen and chilled food, culinary aids and chocolate and confectionary. Other business activities include pet foods, juvenile life insurance and weight management products and services.

Key Figures

		For the Period Ended June 30		
(Dollars in Millions)		**2009**	**2008**	**change %**
Net sales	$	10,068.1	9,712.4	3.7%
Growth excluding acquisitions/divestitures		5.7%	6.7%	
Growth excluding acquisitions/divestitures and pricing		2.3%	1.4%	
Earnings before interest, taxes and other expenses ("EBIT")	$	985.0	866.8	13.6%
as a % of net sales		9.8%	8.9%	
Net financing costs	$	(321.4)	(418.5)	23.2%
Income tax expense		(310.5)	(235.6)	-31.8%
Net Income	$	340.2	236.1	44.1%
as a % of net sales		3.4%	2.4%	
Operating cash flows	$	784.7	141.0	456.5%
as a % of net sales		7.8%	1.5%	
Capital expenditures	$	226.0	242.6	-6.8%

NESTLÉ HOLDINGS, INC.
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Half-Yearly Financial Report

Overview

The strength of our brands was demonstrated once again with improvements in sales and profitability during the first half of 2009 despite adverse market conditions persisting since the fourth quarter of 2008. Despite the economic turmoil, the Company delivered good sales growth and an improved EBIT margin.

Price increases and sales volume growth (excluding the impact of acquisitions and pricing) enabled us to preserve our EBIT margins, whilst operating savings were achieved through our Continuous Excellence program.

Sales

In the first six months of 2009, net sales totaled $10.1 billion, representing an increase of 3.7% over the same period last year. The main factors contributing to this overall sales growth are as follows:

- **Nestlé USA Brands** sales grew by 4.5% to $4.7 billion, through volume increases and a better product mix coupled with some price increases. The main product lines driving this growth were ambient dairy, ready-to-drink products and frozen food products. Sales in the first half were not significantly affected by the voluntary recall of cookie dough which started in late June 2009.

- **PetCare** sales grew by 8.6% to $3.4 billion. This was primarily due to good performance in dog food, wet cat food and biscuits.

- **Nutrition** sales declined by 6.4% to $1.7 billion, primarily due to the disposal of the baby care business at the end of 2008 and the impact on weight management products and services of reduced consumer discretionary spending associated with the uncertain economic environment.

- Sales of **Other** products fell 1.0% to $448 million, mainly because Nestlé Professional was affected by the softer out-of-home market caused by the economic downturn.

Profitability

EBIT, for the period ended June 30, 2009, grew 13.6% to $985 million, or 9.8% of sales, an 86 basis point improvement in EBIT margins over the same period last year.

Cost of goods sold, at 47.6% of sales, declined by 34 basis points due to lower raw material and other variable production costs, particularly in the NUSA Brands and PetCare segments, partially offset by factory fixed cost increases.

Non-production costs declined as a percentage of net sales in the first half of 2009 compared to the same period in 2008, primarily due to efficiencies from the integration of Healthcare Nutrition and Gerber into the Company's ambient distribution network over the last two years and other efficiency programs.

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Net Income

Net income rose by $104.1 million (an increase of 44.1%) due primarily to a 23.2% decrease in net financing costs, which fell by $97 million compared to the same period last year as a result of declines in interest rates paid on bonds and commercial paper.

Cash flow

Operating cash flow increased by $644 million, or 457%, in the first half of 2009 when compared with the first half of 2008. This increase is primarily due to a reduction in trade and other receivables in 2009 and improvement in the Company's EBIT, partially offset by reductions in accrued expenses.

Capital expenditures decreased 6.8% in comparison to the same period last year.

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 2008 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 2008 NHI Annual Financial Report, under the heading *Principal risks and uncertainties*.

Outlook

The US economic recession continues to have the potential to affect the Company in the second half of the year. The Company, however, is well positioned with strong, high quality brands which are valued by the consumer. It is committed to achieving continued growth in the second half of 2009 in line with the Nestle model by addressing the short term concerns of the consumer through its high quality price-value portfolio of product offerings.

NESTLÉ HOLDINGS, INC.
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Half-Yearly Financial Report

Responsibility Statement

Dan Stroud, Senior Vice President and 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 27, 2009

NESTLÉ HOLDINGS, INC.
(A Wholly Owned Subsidiary of Nestlé S.A.)
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Consolidated Income Statement

For the Period Ended June 30, 2009

(Dollars in Thousands)

(Unaudited)

		2009	2008
Net sales (a) (note 10)	$	10,068,053	9,712,386
Cost of goods sold		(4,792,184)	(4,655,967)
Distribution expenses		(847,090)	(898,497)
Marketing, general and administrative expenses (a) note (10)		(2,965,674)	(2,862,490)
Royalties to affiliated company		(478,109)	(428,596)
Earnings before interest, taxes and other expenses (b) (note 3)		984,996	866,836
Net financing costs (note 7)		(321,386)	(418,514)
Share of results from associated companies		1,041	3,902
Net other (expense) income (note 6)		(14,909)	3,545
Income from continuing operations before income taxes (note 3)		649,742	455,769
Income tax expense (note 8)		(310,464)	(235,610)
Income from continuing operations		339,278	220,159
Income from discontinued operations, net of taxes		925	15,960
Net income	$	340,203	236,119

(a) 2008 comparatives have been restated following the first application of IFRIC 13 - *Customer Loyalty Programs.*

(b) Other expenses include share of results from associated companies, discontinued operations and net other expense.

NESTLÉ HOLDINGS, INC.
(A Wholly Owned Subsidiary of Nestlé S.A.)
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Consolidated Statement of Comprehensive Income
For the Period Ended June 30, 2009
(Dollars in Thousands)
(Unaudited)

		2009	2008
Net income	$	340,203	236,119
Fair value adjustments on cash flow hedges:			
Recognized in other equity reserves		5,314	60,731
Removed from other equity reserves		102,379	(3,388)
Income taxes on fair value adjustments on cash flow hedges		(42,002)	(22,367)
		65,691	34,976
Net change in fair value of available-for-sale assets:			
Unrealized results		25,084	(65,120)
Recognition of realized results in the income statement		1,840	5,444
Income taxes on changes in fair value of available-for-sale assets		(9,428)	20,915
		17,496	(38,761)
Defined benefit plan actuarial gains		65,967	20,869
Income taxes on defined benefit plan actuarial gains		(25,727)	(8,139)
		40,240	12,730
Foreign currency translation differences for foreign operations		213	(2,490)
Other comprehensive income		123,640	6,455
Total comprehensive income	$	463,843	242,574

NESTLÉ HOLDINGS, INC.
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Consolidated Balance Sheet

as at June 30, 2009

(Dollars in Thousands, Except Capital Stock Par Value and Shares)

(Unaudited)

Assets	**June 30 2009**	**December 31 2008**
Current assets:		
Cash and cash equivalents	$ 41,763	138,842
Trade and other receivables, net	2,515,645	3,106,986
Assets held for sale	13,829	37,204
Inventories, net	1,610,542	1,454,131
Derivative assets	372,537	413,689
Prepayments	82,745	76,940
	4,637,061	5,227,792
Non-current assets:		
Property, plant and equipment, net	3,907,843	3,919,157
Employee benefits assets	99,782	92,311
Investments in associated companies	11,355	10,314
Deferred tax assets	1,120,507	1,150,674
Financial assets	2,203,150	2,108,791
Goodwill	16,859,223	16,859,223
Intangible assets, net	834,783	791,356
	25,036,643	24,931,826
Total assets	$ 29,673,704	30,159,618
Liabilities and Equity		
Current liabilities:		
Trade and other payables	$ 1,089,656	1,176,603
Financial liabilities (note 5)	11,181,569	9,232,157
Derivative liabilities	311,955	578,223
Income taxes payable	—	5,171
Accruals	1,041,013	1,438,065
	13,624,193	12,430,219
Non-current liabilities:		
Financial liabilities (note 5)	9,341,558	11,589,275
Employee benefits liabilities	1,488,266	1,582,045
Deferred tax liabilities	1,012,325	934,863
Other accrued liabilities	1,926,836	1,786,886
Provisions	131,573	151,220
	13,900,558	16,044,289
Total liabilities	27,524,751	28,474,508
Equity:		
Capital stock, $100 par value. Authorized, issued, and outstanding, 1,000 shares	100	100
Additional paid-in capital	1,650,353	1,650,353
Other equity reserves	(1,060,856)	(1,184,496)
Accumulated earnings	1,559,356	1,219,153
Total equity	2,148,953	1,685,110
Total liabilities and equity	$ 29,673,704	30,159,618

NESTLÉ HOLDINGS, INC.
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Consolidated Statement of Cash Flows
For the Period Ended June 30, 2009
(Dollars in Thousands)
(Unaudited)

		2009	2008
Cash flows from operating activities:			
Net income	$	340,203	236,119
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant, and equipment		231,231	209,371
Loss (gain) on sales of property, plant and equipment		1,865	(1,904)
Provision for impairment of property, plant and equipment		679	—
Amortization of intangible assets		46,649	46,169
Gain on disposal of assets held for sale and other		(4,870)	(574)
(Increase) decrease in cash surrender value of Company-owned life insurance policies		(19,563)	10,140
Increase (decrease) in provisions		12,360	(5,808)
Increase (decrease) in deferred income taxes		30,473	(15,195)
Change in working capital (excluding effects from acquisitions and divestitures):			
Trade and other receivables		588,358	106,019
Inventories		(157,369)	(388,970)
Prepaid taxes and current tax payable		(5,171)	(42,366)
Prepayments and other current assets		(5,805)	8,501
Trade and other payables and other liabilities		53,003	(46,561)
Accruals		(397,024)	(10,261)
Increase (decrease) in working capital		75,992	(373,638)
Other movements, net		69,729	36,285
Total adjustments		444,545	(95,154)
Net cash provided by operating activities		784,748	140,965
Cash flows from investing activities:			
Expenditure on property, plant and equipment		(225,988)	(242,619)
Proceeds from sale of property, plant and equipment		1,398	14,734
Business acquisitions, net of cash acquired		—	(98,347)
Disposals of assets held for sale and other		30,100	227,575
Expenditure on intangible assets		(90,076)	(84,169)
Investments in available-for-sale securities		(76,093)	(79,515)
Other movements		(2,090)	2,062
Net cash used in investing activities		(362,749)	(260,279)
Cash flows from financing activities:			
Net borrowings (repayment) of commercial paper		826,817	(103,016)
Net repayment of line of credit		(4,293)	—
Bonds issued (note 5)		271,211	1,833,221
Bonds repaid (note 5)		(708,108)	(1,336,340)
Notes to affiliates issued		—	300,067
Notes to affiliates repaid (note 11)		(1,000,440)	(501,562)
Other changes in financial liabilities		95,522	(115,935)
Net cash (used in) provided by financing activities		(519,291)	76,435
Net decrease in cash and cash equivalents		(97,292)	(42,879)
Cash and cash equivalents at beginning of period		138,842	134,460
Effect of exchange rate changes on opening balances		213	(2,490)
Cash and cash equivalents at end of period	$	41,763	89,091
Supplemental information:			
Cash paid for:			
Interest	$	367,823	507,088
Taxes		206,070	180,515

NESTLÉ HOLDINGS, INC.
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Consolidated Statement of Changes in Equity
For the Period Ended June 30, 2009
(Dollars in Thousands)
(Unaudited)

		Capital Stock	Additional Paid-in Capital	Other Equity Reserves	Accumulated Earnings	Total
Balance restated at December 31, 2007	$	100	1,650,353	(357,778)	901,579	2,194,254
Total comprehensive income		—	—	6,455	236,119	242,574
Balance at June 30, 2008	$	100	1,650,353	(351,323)	1,137,698	2,436,828
Balance restated at December 31, 2008	$	100	1,650,353	(1,184,496)	1,219,153	1,685,110
Total comprehensive income		—	—	123,640	340,203	463,843
Balance at June 30, 2009	$	100	1,650,353	(1,060,856)	1,559,356	2,148,953

(1) Basis of Preparation

These financial statements are the unaudited interim consolidated financial statements for the period ended June 30, 2009. They have been prepared in accordance with International Accounting Standard ("IAS") 34 - *Interim Financial Reporting* and should be read in conjunction with the 2008 NHI Consolidated Financial Statements contained in the 2008 NHI Annual Financial Report.

The consolidated Half-Yearly Financial Statements were authorized for issuance by the directors of NHI on August 27, 2009.

(2) Accounting Policies and Changes in Accounting Policies

The accounting conventions and accounting policies are the same as those applied in the 2008 NHI Consolidated Financial Statements contained in the 2008 NHI Annual Financial Report, except for changes mentioned below.

Changes in Accounting Policies

The Company applied the following International Financial Reporting Standards ("IFRSs") and Interpretations ("IFRICs") as of January 1, 2009 onwards:

IFRS 7 amendments – Financial Instruments – Disclosures
The IFRS 7 amendments, which require entities to disclose information about the measurement hierarchy of financial instruments, will be included in the 2009 year-end consolidated financial statements. At the end of June 2009, most of the Company's financial instruments are measured on the basis of prices quoted on active markets (commodity futures and listed bonds) and on the basis of valuation techniques such as discounted cash flow calculations or other pricing models.

IFRS 8 – Operating Segments
IFRS 8 (which supersedes IAS14) requires the reporting of segmental information for operating segments. Operating segments reflect the Company's management structure and the way financial information is regularly reviewed by the Company's chief operating decision maker. The chief operating decision maker has been defined as a body comprised of the members of the Nestlé Group Executive Board to whom the various operating segments report, since this is the level at which resources are allocated and results are assessed.

The Company's management structure is aligned with the Nestlé Group management structure, and is organized around products, as shown below:

- The *Nestlé USA Brands* segment, which reports to the Nestlé Group Executive Board member responsible for Zone Americas. It consists primarily of beverages, confections, snacks, frozen prepared foods, ice cream, and other food products.
- The *PetCare* segment reports directly to the Nestlé Group Executive Board member responsible for Zone Americas, and sells products and services for domestic pets.
- The *Nutrition* segment reports to the Nestlé Group Executive Board member responsible for the Nestlé Nutrition Globally Managed Business (GMB). It is the aggregation of a number of

operating segments which sell science-based nutrition products, targeted at purchasers of baby foods, medical nutritional food products and performance related food products.

- The *Other Segments* category is comprised of other operating segments that do not meet the criteria for separate reporting, such as Nestlé Professional (reporting to the Nestlé Group Executive Board member responsible for the Nestlé Professional GMB) which sells products for the foodservices industry and Nespresso (reporting to the Nestlé Group Executive Board member responsible for Strategic Business Units, Marketing, Sales and Nespresso).

Comparative segment information has been restated. From January 1, 2009, the Ice Cream business, previously managed separately, is managed by Nestlé USA Brands and consequently is included in the "*Nestlé USA Brands*" segment. Nestlé Professional has been separated from Nestlé USA Brands and consequently is disclosed in "*Other Segments*".

IAS 1 Revised – Presentation of Financial Statements
The standard includes non-mandatory changes of the titles of the financial statements. The Company has chosen the option to maintain the existing titles. The standard also introduces a statement of comprehensive income, but allows presenting a two statement approach with a separate income statement and a statement of comprehensive income, which is the option that the Company has chosen.

IAS 23 Revised – Borrowing Costs
The revised standard removes the option of recognizing as an expense borrowing costs directly attributable to acquisition, construction or production of a qualifying asset as previously elected by the Company. This standard has no material impact on the Company's financial statements, as the construction period of the Company's main assets is usually rather short.

IFRIC 13 – Consumer Loyalty Programs
This interpretation requires that the fair value of the consideration related to award credits programs be separately identified as a component of the sales transaction and recognized when the awards are redeemed by the customers and the corresponding obligations are fulfilled by the Company. Such programs are not numerous in the Company and implementing this interpretation has no material effect on the Company's financial statements (note 10).

Improvements and other amendments of IFRSs or IFRICs
Improvements or other amendments effective in 2009 do not have a material effect on the Company's financial statements.

Changes in IFRSs and IASs that may affect the Company after December 31, 2009

IFRS 3 Revised – Business Combinations
This standard will be effective for the first annual reporting period beginning on or after July 1, 2009. The Company will thus apply it prospectively as from January 1, 2010 onwards. The revised standard will cause the following changes:

- Acquisition costs will be expensed;
- For a business combination in which the acquirer achieves control without buying all of the equity of

the acquiree, the remaining minority (non-controlling) equity interests are measured either at fair value or at the non-controlling interests' proportionate share of the acquiree's net identifiable assets;

- Upon obtaining control in a business combination achieved in stages, the acquirer shall re-measure its previously held equity interest at fair value and recognize a gain or a loss in the consolidated income statement; and
- Changes in the contingent consideration of an acquisition will be accounted for outside goodwill, in the consolidated income statement.

IAS 27 Revised – Consolidated and Separate Financial Statements
This standard will be applicable prospectively for the first annual reporting period beginning on or after July 1, 2009; the Company will thus apply it as from January 1, 2010 onwards. The revised standard stipulates that a change in the minority (non-controlling) interest of an acquiree that does not result in a loss of control shall be accounted for as an equity transaction.

Modification of the Scope of Consolidation

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

Reclassifications

Certain reclassifications have been made to the 2008 consolidated financial statements to conform to the presentation of the current period.

(Dollars in Thousands)

(3) Segmental Information

Net segment sales and segment EBIT are as follows:

		Nestle USA Brands	PetCare	Nutrition	Other Segments	Total
June 30, 2009						
Net Segment Sales	$	4,680,374	3,256,630	1,657,802	446,418	10,041,224
Segment EBIT		261,126	475,015	183,809	23,370	943,320
June 30, 2008						
Net Segment Sales	$	4,479,252	2,972,851	1,771,447	452,766	9,676,316
Segment EBIT		231,129	423,311	209,884	15,887	880,211

Reconciliation of segment EBIT to income from continuing operations before income taxes is as follows:

		2009	2008
Segment EBIT	$	943,320	880,211
Commodities derivative valuations		42,543	-
Intangibles amortization		(3,858)	(4,868)
Lease provision		(2,802)	(2,801)
Long term incentive		-	6,923
Other		5,793	(12,629)
Earnings before interest, taxes and other expenses		984,996	866,836
Net financing costs		(321,386)	(418,514)
Share of results from associated companies		1,041	3,902
Net other (expense) income		(14,909)	3,545
Income from continuing operations before income taxes	$	649,742	455,769

(4) 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. EBIT 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 period ended June 30, 2009 are not necessarily indicative of results to be expected for the full year.

(Dollars in Thousands)

(5) Bonds

The following bonds were issued or repaid under the Debt Issuance Programme of NHI:

Face Value	Comments	Interest Rate Nominal	Interest Rate Effective	Year of Issue/ Maturity	Issued(Repaid) (in 000's)
New issues:					
USD 150,000	(a)	2.00%	2.24%	2009-2013	$ 148,629
USD 125,000	(b)	2.00%	2.53%	2009-2013	122,582
Total new issues					$ 271,211
Repayments:					
EUR 150,000	(c)	2.13%	2.95%	2005-2009	$ (193,950)
EUR 100,000	(c)	2.13%	3.00%	2006-2009	(122,950)
GBP 100,000	(c)	5.13%	5.24%	2006-2009	(189,700)
GBP 100,000	(c)	5.13%	5.52%	2007-2009	(196,500)
Other					(5,008)
Total repayments					$ (708,108)

[a] Not subject to a swap.
[b] Subject to an interest rate swap that creates a USD liability at a floating rate.
[c] Subject to an interest rate and currency swap that creates a USD liability at a floating rate.

(Dollars in Thousands)

(6) Net Other (Expense) Income

Net other (expense) income is as follows:

		2009	2008
Gain on assets held for sale	$	5,800	-
Gain on real estate		353	3,473
Reversal of unused provisions		1,872	10,024
Restructuring expense		(12,954)	(7,649)
Legal settlements and expense		(2,569)	-
(Loss) gain on business divestitures		(1,109)	904
Impairment of property, plant and equipment		(679)	-
Other		(5,623)	(3,207)
	$	(14,909)	3,545

(7) Net Financing Costs

Net financing costs are as follows:

		2009	2008
Interest income	$	33,487	13,875
Gains on instruments at fair value to income statement		-	233
Financial income		33,487	14,108
Interest expense		(354,262)	(432,048)
Unwind of discount on provisions		(611)	(574)
Financial expense		(354,873)	(432,622)
Net financing cost	$	(321,386)	(418,514)

Interest expense on amounts due to affiliated and associated companies amounted to $173,427 in 2009.
Interest income on amounts due from affiliated and associated companies amounted to $3,755 in 2009.

(Dollars in Thousands)

(8) Income Taxes

Reconciliation of tax expense from continuing operations is as follows:

		2009	2008
Tax at theoretical rate	$	(250,423)	(174,761)
Tax effect on non-deductible amortization of goodwill and other intangible assets		(1,494)	(1,885)
Permanent differences on Company-owned life insurance policies		7,511	55
Tax effect on non-allowable items		35	(5,577)
Prior years' tax		(65,615)	(53,426)
Other taxes		(478)	(16)
	$	(310,464)	(235,610)
Effective tax rate		48%	52%

(9) Events after the Balance Sheet Date

Other than the following, the Company is not aware of specific events or transactions occurring subsequent to June 30, 2009, and up to the half-yearly report issuance date that would have a material impact on the presentation of the accompanying consolidated financial statements.

In July 2009, the Company made a pension contribution of $74,342.

(10) Restatement following the First Application of IFRIC 13

2008 comparatives have been restated as follows:

		As Originally Reported	First Application of IFRIC 13	Restated
For the period ended June 30, 2008:				
Net Sales	$	9,712,167	219	9,712,386
Marketing, general and administrative expenses		(2,862,271)	(219)	(2,862,490)

The first application of this interpretation had no affect upon the consolidated balance sheet.

NESTLÉ HOLDINGS, INC.
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Notes to the Consolidated Half-Yearly Financial Statements
(Dollars in Thousands)
(Unaudited)

(11) Transactions with Related Parties

Loans from Nestlé S.A.		2009
As at January 1	$	6,550,068
Loan repayments		(1,000,068)
As at June 30	$	5,550,000

Loans from affiliates		2009
As at January 1	$	300,372
Loan repayments		(372)
As at June 30	$	300,000