Nestlé Good food, Good life

NHI Group

Half-Yearly Financial Report
June 30, 2020 – Unaudited

Management Report

Nestlé Holdings, Inc. (“NHI”) (hereinafter, together with its subsidiaries, referred to as the “NHI Group”) incorporated in the State of Delaware, United States, is a wholly owned subsidiary of NIMCO US, Inc., which is an indirect 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 Nestle Waters North America Inc., Terrafertil US LLC and Atrium Biotech USA, LLC. The NHI Group engages primarily in the manufacture and sale of food products, pet care products, beverage products and Nutrition and Health Science. These businesses derive revenue across the United States.

Key Figures

In millions of Dollars	January-June 2020	January-June 2019	Change
Sales	**11 169**	**11 000**	**1.5%**
Cost of goods sold	(6 340)	(6 067)	4.5%
as a percentage of sales	(56.8%)	(55.2%)	
Trading operating profit	1 095	712	53.8%
as a percentage of sales	9.8%	6.5%	
Net financial expenses	(87)	(127)	(31.5%)
Income tax expense	(786)	(233)	237.3%
Net income	2 067	227	810.6%
as a percentage of sales	18.5%	2.1%	
Operating cash flow	198	(371)	—
as a percentage of sales	1.8%	(3.4%)	
Capital expenditure	(262)	(273)	(4.0%)
as a percentage of sales	(2.3%)	(2.5%)	

The NHI Group has delivered year-over-year improvements in sales. We are committed to continued execution of cost reduction initiatives and improved operational efficiencies such as the plan to exit the Direct-Store-Delivery (“DSD”) network, referred to as Frozen Transformation, which commenced in the second quarter of 2019. We continue to invest in our core brands and made key initiatives towards portfolio optimization including the disposal of the Ice Cream business at the end of January and acquisitions within Health Science.

Sales

For the first six months ending June 30, 2020 and 2019, consolidated sales totaled $11.2 billion and $11.0 billion, respectively. The main factors per segment are as follows:

- **Nestlé USA Brands** sales were $4.8 billion and $5.1 billion for the six months ending June 30, 2020 and 2019, respectively. The overall decline in sales was driven by the Ice Cream disposal on January 31, 2020. In the beverages category, Starbucks at-home products, *Nescafé* and *Coffee mate* grew at double-digit rates. Frozen food accelerated to double-digit growth, with increased sales for *DiGirono*, *Hot Pockets* and *Stouffer's*. Baking products, including *Toll House* and *Carnation*, continued to see exceptional demand.
- **Nestlé Purina PetCare** sales were $4.5 billion and $4.0 billion for the six months ending June 30, 2020 and 2019, respectively. PetCare saw continued strong momentum in e-commerce and in premium brands, such as *Purina Pro Plan*, *Purina ONE* and *Fancy Feast*. The launch of *Pro Plan LiveClear*, the first allergen-reducing cat food, resonated strongly with cat owners.
- **Other** businesses sales were $1.8 billion and $1.9 billion for the six months ending June 30, 2020 and 2019, respectively. Nespresso saw strong double-digit growth, with continued market share gains. Nestle Professional posted a double-digit sales decline, in line with channel dynamics.

Profitability

Trading operating profit was $1.1 billion and $0.7 billion for the six months ending June 30, 2020 and 2019, being 9.8% and 6.5% of sales for each period, respectively. The increase was driven by portfolio management, primarily the disposal of Ice Cream, reduced in-store activation during lockdowns and Frozen Transformation more than offset COVID-19 related costs and commodity inflation.

Cost of goods sold was $6.3 billion and $6.1 billion for the six months ending June 30, 2020 and 2019, which equaled approximately 56.8% and 55.2% of sales for each period, respectively. The increase, as a percentage of sales, was primarily due to increased product costs.

Distribution expenses were $1.0 billion and $1.1 billion for the six months ending June 30, 2020 and 2019, which equaled approximately 8.6% and 9.6% of sales for each period, respectively. Favorability mainly due to the disposal of Ice Cream and savings realized through Frozen Transformation.

Marketing, general and administrative expenses were $1.7 billion and $1.8 billion for each of the six months ending June 30, 2020 and 2019, respectively. There was a decrease in these expenses as a percentage of sales from 16.4% in 2019 to 15.1% in 2020, primarily due to savings realized through Frozen Transformation, as well as the disposal of Ice Cream.

Net other trading expenses were $80.0 million and $393 million for each of the six months ending June 30, 2020 and 2019, respectively. The decrease was primarily due to impairment of property, plant, and equipment associated with the exit from the DSD network in 2019.

Net Profit Margin – Other Items of Interest
Net financial expenses decreased by $40 million from the six month period ended June 30, 2019 to the six month period ended June 30, 2020, primarily due to a reduction in third party interest expense partially offset by lower interest income.

Income tax expense increased by $553 million from the six month period ended June 30, 2019 to the six the month period ended June 30, 2020, primarily as a result of an increase in profit before taxes.

Cash Flow
Operating cash flow was $198 million and ($371) million for the six months ended June 30, 2020 and June 30, 2019, respectively. The increase in operating cash flow is primarily driven by changes in working capital.

Principal Risks and Uncertainties
In the course of its business, the NHI Group 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 such as the COVID-19 pandemic. The NHI Group believes that its principal risks and uncertainties for the remaining six months of the financial year have not changed in respect of the financial year ended December 31, 2019 ("2019 NHI Annual Financial Report"). The detailed discussion of these risks and uncertainties and the NHI Group's objectives, policies and processes for managing these risks and uncertainties were disclosed in the Management Report section under the heading Principal Risks and Uncertainties and in the Notes to the Consolidated Financial Statements, in particular, Note 12, included in the 2019 NHI Annual Financial Report.

Outlook
As we look towards the second half of 2020, the NHI Group is well positioned with strong, high quality brands, which are valued by the consumer. There are continued opportunities to leverage the NHI Group's competitive advantages, deliver on growth opportunities, and benefit from the drive for continuous improvement.

The NHI Group is committed to supporting the Nestlé Group in achieving its full-year 2020 financial objectives including: organic sales growth expected to be between 2-3%, Underlying Trading operating profit margin improvement, an increase in Underlying earnings per share in constant currency, and capital efficiency.

This guidance is based on our current knowledge of COVID-19 developments and assumes no material deterioration versus present conditions.

Responsibility Statement

Giulio Gerardo, 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, 2020

Review Report of Independent Auditors

The Board of Directors
Nestlé Holdings, Inc.:

We have reviewed the condensed consolidated financial information of Nestlé Holdings, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheet as of June 30, 2020, and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six-month period ended June 30, 2020. The condensed consolidated financial information of the Company as of June 30, 2019, and for the six-month period then ended, were reviewed by other auditors whose report dated September 4, 2019 stated that based on their review they were not aware of any material modifications that should be made to that financial information for it to be in conformity with International Financial Reporting Standards. The consolidated balance sheet of Nestlé Holdings, Inc. and its subsidiaries as of December 31, 2019, and the related consolidated income statement and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended (not presented herein) were audited by other auditors whose report dated March 31, 2020 expressed an unmodified opinion on those statements.

Management's Responsibility for the Financial Information
Management is responsible for the preparation and fair presentation of the condensed consolidated financial information in conformity with International Financial Reporting Standards; this includes the design, implementation and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in conformity with International Financial Reporting Standards.

Auditor's Responsibility
Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States applicable to reviews of interim financial information and International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States and International Standards on Auditing, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion
Based on our review, we are not aware of any material modifications that should be made to the 2020 condensed consolidated financial information referred to above for it to be in conformity with International Financial Reporting Standards.

/s/ Ernst & Young LLP

Tysons, Virginia
August 27, 2020

Consolidated unaudited income statement for the six months ended June, 30 2020

In millions of Dollars	Notes	January-June 2020	January-June 2019
Sales		**11 169**	**11 000**
Cost of goods sold		(6 340)	(6 067)
Distribution expenses		(958)	(1 052)
Marketing and administrative expenses		(1 690)	(1 803)
Royalties to affiliated company		(1 166)	(973)
Other trading income	5	55	85
Other trading expenses	5	25	(478)
Trading operating profit		**1 095**	**712**
Other operating income	5	2 040	12
Other operating expenses	5	(193)	(132)
Operating profit		**2 942**	**592**
Financial income		255	269
Financial expense		(342)	(396)
Profit before taxes and associates		**2 855**	**465**
Taxes		(786)	(233)
Loss from associates		(2)	(5)
Profit for the period		**2 067**	**227**

Consolidated unaudited statement of comprehensive income for the six months ended June, 30 2020

In millions of Dollars	January-June 2020	January-June 2019
Profit for the period recognized in the income statement	**2 067**	**227**
Fair value adjustments on debt instruments, net of taxes	—	(31)
Fair value adjustments on cash flow hedges, net of taxes	(85)	8
Items that are or may be reclassified subsequently to the income statement	(85)	(23)
Remeasurement of defined benefit plans, net of taxes	(146)	13
Fair value changes on equity instruments, net of taxes	—	1
Items that will never be reclassified to the income statement	(146)	14
Other comprehensive income for the period	**(231)**	**(9)**
Total comprehensive income for the period	**1 836**	**218**

Consolidated unaudited balance sheet as at June 30, 2020

In millions of Dollars	Notes	June 30, 2020	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		387	323
Short-term investments		1 048	13
Inventories		2 430	1 845
Trade and other receivables		1 994	1 913
Loans to parent and affiliates	10	16 183	15 457
Prepayments and accrued income		100	45
Assets held for sale	2	22	2 112
Total current assets		**22 164**	**21 708**
Non-current assets			
Property, plant and equipment		5 849	5 909
Goodwill		14 388	14 286
Intangible assets		4 597	4 598
Investments in associates		24	25
Financial assets		1 254	1 320
Loans to parent and affiliates	10	1 187	264
Employee benefits assets		227	403
Deferred tax assets		633	799
Total non-current assets		**28 159**	**27 604**
Total assets		**50 323**	**49 312**

In millions of Dollars	Notes	June 30, 2020	December 31, 2019
Liabilities and equity			
Current liabilities			
Financial debt		7 118	7 123
Trade and other payables		2 863	2 645
Loans from affiliates	10	327	79
Accruals and deferred income		1 427	1 794
Provisions		99	289
Derivative liabilities		416	309
Current income tax liabilities		1 174	683
Liabilities directly associated with assets held for sale	2	—	127
Total current liabilities		**13 424**	**13 049**
Non-current liabilities			
Financial debt		13 321	14 582
Employee benefits liabilities		1 692	1 722
Provisions		74	63
Deferred tax liabilities		1 371	1 285
Other payables		12	18
Total non-current liabilities		**16 470**	**17 670**
Total liabilities		**29 894**	**30 719**
Equity			
Share capital	7	—	—
Additional paid-in capital		5 624	5 624
Other reserves		(1 198)	(967)
Retained earnings		16 003	13 936
Total equity		**20 429**	**18 593**
Total liabilities and equity		**50 323**	**49 312**

Consolidated unaudited cash flow statement for the six months ended June, 30 2020

In millions of Dollars	Notes	January-June 2020	January-June 2019
Operating activities			
Operating profit	6	2 942	592
Depreciation and amortization		343	373
Impairment		7	206
Net result on disposal of businesses		(1 953)	8
Other non-cash items of income and expense		251	(60)
Cash flow before changes in operating assets and liabilities	**6**	**1 590**	**1 119**
Decrease/(increase) in working capital		(807)	(1 269)
Variation of other operating assets and liabilities		(313)	39
Cash generated from/(used in) operations		**470**	**(111)**
Interest paid		(197)	(67)
Taxes paid		(75)	(193)
Operating cash flow		**198**	**(371)**
Investing activities			
Capital expenditure		(262)	(273)
Expenditure on intangible assets		(27)	(26)
Acquisition of businesses	2	(160)	—
Disposal of businesses	2	4 009	(22)
Inflows/(outflows) from short-term treasury investments		(1 035)	1 277
Other investing activities		103	3
Investing cash flow		**2 628**	**959**
Financing activities			
Loans from affiliates received, net		328	47
Loans to parent issued, net		(1 719)	(1 706)
Inflows from bonds and other non-current financial debt		1	—
Outflows from bonds and other non-current financial debt		(1 097)	(564)
Inflows/(outflows) from current financial debt		(275)	1 546
Financing cash flow		**(2 762)**	**(677)**
Increase/(decrease) in cash and cash equivalents		**64**	**(89)**
Cash and cash equivalents at beginning of period		323	368
Cash and cash equivalents at end of period		**387**	**279**

Consolidated unaudited statement of changes in equity for the six months ended June 30, 2020

In millions of Dollars

	Share capital	Additional paid-in capital	Other reserves	Retained earnings	**Total equity**
Equity as at January 1, 2019	**—**	**5 624**	**(1 003)**	**12 933**	**17 554**
Profit for the period	—	—	—	227	**227**
Other movements	—	—	(8)	8	**—**
Other comprehensive income for the period	—	—	(9)	—	**(9)**
Total comprehensive income for the period	**—**	**—**	**(17)**	**236**	**218**
Equity as at June 30, 2019	**—**	**5 624**	**(1 020)**	**13 169**	**17 773**
Equity as at January 1, 2020	**—**	**5 624**	**(967)**	**13 936**	**18 593**
Profit for the period	—	—	—	2 067	**2 067**
Other comprehensive income for the period	—	—	(231)	—	**(231)**
Total comprehensive income for the period	**—**	**—**	**(231)**	**2 067**	**1 836**
Equity as at June 30, 2020	**—**	**5 624**	**(1 198)**	**16 003**	**20 429**

Notes to the condensed unaudited interim financial statements

1. Accounting Policies

Basis of Preparation

These Condensed Interim Financial Statements are the unaudited Condensed Interim Consolidated Financial Statements (hereafter "the Condensed Interim Financial Statements") of Nestlé Holdings Inc. ("NHI") (hereinafter, together with its subsidiaries, referred to as the "NHI Group") for the six month period ended June 30, 2020. 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, 2019.

The accounting conventions and accounting policies are the same as those applied in NHI's Consolidated Financial Statements for the year ended December 31, 2019 (as described in Note 1 and within the relevant notes) except for the changes in accounting policies and reclassifications mentioned below.

The preparation of NHI's Condensed Interim Financial Statements requires management to exercise judgment and to make estimates and assumptions that affect the application of policies, reported amounts of revenues, expenses, assets, liabilities, and disclosures. The key sources of estimation uncertainty within these Condensed Interim Financial Statements remain the same as those applied to NHI's Consolidated Financial Statements for the year ended December 31, 2019, except for the impact of the COVID-19 pandemic (see Note 11).

Reclassifications

Certain reclassifications have been made to amounts in prior years' financial statements to conform to current year presentation as a result of changes in the Balance Sheet presentation of Trade and other receivables and payables, and non-current financial assets to exclude the amount associated with Loans to/from parent and affiliates and present them separately for 2020 and 2019. Other trading and operating income/expense and financial income/expense are no longer presented net in the consolidated income statement. Nutrition is now reclassified into "other" in Note 3 Segment analyses.

Changes in accounting standards

In May 2020, the IASB issued COVID-19-Related Rent Concessions (Amendments to IFRS16), which provides a practical expedient to not assess whether specific types of rent concessions related to COVID-19 are lease modifications. The NHI Group has applied this amendment in these Condensed Interim Financial Statements. There was no significant impact on the current period or prior period comparative figures.

A number of other standards have been modified on miscellaneous points with effect from January 1, 2020 which have no material impact on the NHI Group's Financial Statements. These include Definition of a Business (Amendments to IFRS 3), Definition of Material (Amendments to IAS 1 and IAS 8) and Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, and IFRS 7).

2. Scope of consolidation, acquisitions and disposals of businesses and assets held for sale

2.1 Modification of the scope of consolidation

Acquisitions

There were no significant acquisitions during the first six months of 2020 and no significant acquisitions during the comparative period. Nation Pizza business was acquired during the 2020 interim period among other non-significant acquisitions.

Disposals

The only significant disposal during the 2020 interim period is:

- Ice Cream business (part of the Brands segment) – 100%, end of January.

There were no significant disposals during the comparative period. Cash inflows during the 2020 interim period are related mainly to the Ice Cream business and other non-significant disposals. Cash flows of the comparative period are related to expenses from prior period disposals.

2.2 Disposals of businesses

The gain on disposal of businesses of the 2020 interim period is mainly composed of the gain on disposal of the Ice Cream business (part of the Brands segment).

In millions of Dollars	US Ice Cream	Other	January–June 2020 Total	January–June 2019 Total
Property, plant and equipment	458	51	**509**	—
Goodwill and intangible assets	1 401	14	**1 415**	—
Cash, cash equivalents and short-term investments	1	—	**1**	—
Inventories	193	10	**203**	—
Other assets	39	—	**39**	—
Financial liabilities	(15)	—	**(15)**	—
Deferred tax liabilities	(88)	—	**(88)**	—
Other liabilities	(10)	(16)	**(26)**	(14)
Net assets disposed of	**1 979**	**59**	**2 038**	**(14)**
Profit/(loss) on disposals, net of disposal costs and impairments of assets held for sale	2 010	(57)	**1 953**	(8)
Total disposal consideration, net of disposal costs	**3 989**	**2**	**3 991**	**(22)**
Cash and cash equivalents disposed of	(1)	—	**(1)**	—
Disposal costs not yet paid	15	4	**19**	—
Consideration receivable	—	—	**—**	—
Receipt of consideration receivable on prior years' disposals	—	—	**—**	—
Cash inflow on disposals, net of disposal costs paid	**4 003**	**6**	**4 009**	**(22)**

The loss on disposal of businesses of the 2020 interim and comparative period was composed of non-significant disposals.

2.3 Assets held for sale

As of December 31, 2019, assets held for sale and liabilities directly associated with assets held for sale were mainly composed of the Ice Cream business and the exit from the Direct-Store-Delivery ("DSD") network for Frozen Pizza and Ice Cream.

Following the disposal of the Ice Cream business during the 2020 interim period (see Note 2.2), only the DSD network assets held for sale remain as of June 30, 2020.

3. Analyses by segment

3.1 Operating segments

Revenue and results

In millions of Dollars				January-June 2020
	Brands [a]	PetCare	Other [a]	**Total**
Sales	4 811	4 523	1 835	**11 169**
Underlying Trading operating profit [b]	513	448	54	**1 015**
Trading operating profit (loss) [c]	571	461	63	**1 095**
Net other trading (expenses) income [d]	60	11	9	**80**
Of which impairment of property, plant and equipment	(8)	—	1	**(7)**
Of which restructuring costs	33	—	10	**43**
Depreciation and amortization	(123)	(143)	(77)	**(343)**

				January-June 2019
	Brands [a]	PetCare	Other [a]	**Total**
Sales	5 134	4 001	1 865	**11 000**
Underlying Trading operating profit [b]	489	461	155	**1 105**
Trading operating profit (loss) [c]	115	468	129	**712**
Net other trading (expenses) income [d]	(374)	7	(26)	**(393)**
Of which impairment of property, plant and equipment	(186)	(2)	(18)	**(206)**
Of which restructuring costs	(137)	—	(2)	**(139)**
Depreciation and amortization	(152)	(116)	(105)	**(373)**

(a) Nestlé USA Brands primarily consists of Nestlé Coffee Partners, Beverages, Prepared foods and other food products. Other primarily consists of Nutrition, Nestlé Professional, Nespresso, and Nestlé Health Science, which do not meet the criteria for separate disclosure.
(b) Trading operating profit before Net other trading income (expenses).
(c) The NHI Group determines trading operating profit by allocating corporate expenses to its operating segments based on activity-based cost drivers.
(d) Included in Trading operating profit.

3.2 Reconciliation from Underlying Trading operating profit to profit before taxes and associates:

In millions of Dollars	January-June 2020	January-June 2019
Underlying Trading operating profit	**1 015**	**1 105**
Net other trading income/(expenses)	80	(393)
Trading operating profit	**1 095**	**712**
Net other operating income/(expenses)	1 847	(120)
Operating profit	**2 942**	**592**
Net financial expense	(87)	(127)
Profit before taxes and associates	**2 855**	**465**

4. Seasonality

The business of the NHI Group is not highly cyclical. Seasonal evolutions in the Nestlé USA brands segment, particularly in the second half of the year during the holiday season, may result in lower sales and Trading operating margin in the first half relative to the full year.

5. Net other trading and operating income/(expenses)

5.1 Net other trading income/(expenses)

In millions of Dollars	January-June 2020	January-June 2019
Other trading income	**55**	**85**
Restructuring costs (a)	43	(139)
Impairment of property, plant and equipment and intangible assets	(7)	(206)
Litigation and onerous contracts	(7)	(74)
Result on deferred compensation	—	(45)
Miscellaneous trading expenses	(4)	(14)
Other trading expenses (b)	**25**	**(478)**
Net other trading income/(expenses)	**80**	**(393)**

(a) Of which, $43 million due to changes in estimates relating to reversals of restructuring costs for various completed projects, including Frozen Transformation (see Note b).
(b) January-June 2019 includes one-off costs of $395 million related to the exit of the DSD network for Frozen Pizza and Ice Cream.

5.2 Net other operating income/(expenses)

In millions of Dollars	Notes	January-June 2020	January-June 2019
Profit on disposal of businesses	2	2 010	—
Miscellaneous operating income		30	12
Other operating income		**2 040**	**12**
Loss on disposal of businesses	2	(57)	(8)
Miscellaneous operating expenses		(136)	(124)
Other operating expenses		**(193)**	**(132)**
Net other operating income/(expense)		**1 847**	**(120)**

6. Cash flow before changes in operating assets and liabilities

In millions of Dollars	January–June 2020	January–June 2019
Profit for the period	**2 067**	**227**
Loss from associates	2	5
Taxes	786	233
Financial income	(255)	(269)
Financial expense	342	396
Operating profit	**2 942**	**592**
Depreciation of property, plant and equipment	317	345
Impairment of property, plant and equipment	7	206
Amortization of intangible assets	26	28
Impairment of intangible assets	—	18
Net result on disposal of businesses	(1 953)	8
Net result on disposal of assets	(27)	12
Non-cash items in financial assets and liabilities	278	(90)
Non-cash items of income and expense	**(1 352)**	**527**
Cash flow before changes in operating assets and liabilities	**1 590**	**1 119**

7. Equity

The share capital consists of 1,000 authorized, issued, and outstanding shares of $100 par value.

8. Fair value of financial instruments

In millions of Dollars	June 30, 2020	December 31, 2019
Bonds and debt funds	1 004	—
Other financial assets	—	3
Derivative liabilities	(9)	(2)
Prices quoted in active markets (Level 1)	**995**	**1**
Bonds and debt funds	306	302
Equity and equity funds	212	238
Investments in life insurance company general accounts	590	586
Other financial assets	10	18
Derivative liabilities	(407)	(307)
Valuation techniques based on observable market data (Level 2)	**711**	**837**
Valuation techniques based on unobservable input (Level 3)	**20**	**16**
Total financial instruments at fair value	**1 726**	**854**

The fair values categorized in Level 2 above were determined as follows:
- Derivatives are valued based on discounted contractual cash flows using risk adjusted discount rates and relying on observable market data for interest rates and foreign exchange rates; and
- The other level 2 investments are based on a valuation model derived from the most recently published observable financial prices for similar assets in active markets.

The entire fair value measurement of assets held for sale and liabilities directly associated with assets held for sale are categorized in Level 2 of the fair value hierarchy.

There have been no significant transfers between the different hierarchy levels in the 2020 and the 2019 interim periods.

Carrying amount and fair value

As of June 30, 2020, the carrying amount of bonds issued is $ 14.7 billion (December 31, 2019: $15.7 billion), compared to a fair value of $16.4 billion (December 31, 2019: $ 16.8 billion). This fair value is categorized as Level 2, measured on the basis of quoted prices. For all other financial assets and liabilities, the carrying amount is a reasonable approximation of the fair value.

9. Bonds

The following bond repayments took place during the interim period as follows:

In millions of Dollars						January-June 2020
	Face value	Coupon	Effective interest rate	Years of issue/ maturity	Comments	Amount
	AUD 250	4.25%	4.43%	2014-2020		(149)
	USD 650	2.13%	2.27%	2014-2020	(a)	(650)
	NOK 1000	2.75%	2.85%	2014-2020		(96)
Total repayments						**(895)**

(a) Subject to an interest rate and currency swap that creates a U.S. dollar asset or liability at floating rates.

10. Transactions with related parties

In millions of Dollars	June 30, 2020	December 31, 2019
Loans to NIMCO US, Inc. (Parent)		
At January 1	12 502	12 097
Loans granted during the period	1 719	405
At June 30 / December 31	**14 221**	**12 502**
Loans to affiliates		
At January 1	3 219	2 560
Loans granted during the period	242	956
Loan repayments	(312)	(297)
At June 30 / December 31	**3 149**	**3 219**
Total loans to parent and affiliates at June 30 / December 31	**17 370**	**15 721**
of which current	16 183	15 457
of which non-current	1 187	264
Loans from affiliates		
At January 1	79	79
Loans received during the period	255	—
Loan repayments	(7)	—
Total loans from affiliates at June 30 / December 31	**327**	**79**
of which current	327	79

Interest expenses on amounts due to affiliated and associated companies and bonds and commercial paper guarantee fees to Nestlé S.A. amounted to $(34.7 million) and $(39.4 million) in 2020 and 2019 interim periods respectively. Interest income on amounts due from affiliated and associated companies amounted to $243.4 million and $252.7 million in 2020 and 2019, for the interim periods respectively.

11. Impacts of COVID-19

On March 11, 2020, the World Health Organization designated a new coronavirus disease ("COVID-19") as a global pandemic. Governments around the world have implemented public health and social measures to slow the transmission of the virus. These include physical and social distancing measures (cancellation of events and limitations on mass gatherings, orders to stay at or work from home, closure of schools), movement measures (significant restrictions on domestic and international travel, implementing quarantines or isolation of arriving travelers). These measures have had a significant impact on certain businesses (particularly tourism, retail and restaurants), leading to economic fallout and uncertainty.

The NHI Group has assessed the consequences of the COVID-19 pandemic on the Condensed unaudited interim financial statements, specifically considering the impacts on key judgements and significant estimates as detailed on page 19 of the Consolidated Financial Statements of the NHI Group 2019. Due to the pervasive effects of COVID-19 it is not possible to precisely identify and quantify all impacts on the Operating Profit of the NHI Group. However, following a review no significant adverse impact has been identified. The NHI Group will continue to monitor these areas of increased risk for material changes.

11.1 Liquidity and financing

The NHI Group had sufficient liquidity and access to committed credit facilities to meet all short-term financial obligations. Several measures have been taken to secure further liquidity such as extending maturities of commercial papers.

Counterparty risk continues to be actively managed, in line with the NHI Group's normal risk management approach as described on pages 55 to 59 of the Consolidated Financial Statements of the NHI Group 2019.

12. Impairment testing – CGUs

The NHI Group reviewed the Cash Generating Units (CGUs) identified for testing goodwill to re-align them with the way in which management monitors goodwill and manages the operations. This was driven by a change in business organization and operations primarily caused by the disposal of the Ice Cream business. As a consequence of this review, with effect from January 1, 2020, goodwill related to frozen pizza will be tested within the Food CGU and goodwill related to Starbucks coffee will be tested within the Beverages CGU. The recoverable amount of these CGUs will usually be determined based on their fair value less costs of disposal but occasionally based on their value in use. The fair value less costs of disposal corresponds to their future projected cash flows discounted at an appropriate post-tax discount rate which would be used by a market participant.

13. Events after the Balance Sheet Date

The NHI Group was not aware of specific events or transactions occurring after June 30, 2020, and up to August 27, 2020 that would have a material impact on the presentation of the accompanying condensed interim financial statements.