Nestlé Good food, Good life

NHI Group

Annual Financial Report
December 31, 2020

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 Nestlé 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

	2020	2019	Change
Sales	**23 585**	**23 519**	**0.3%**
Cost of goods sold	(13 267)	(12 871)	3.1%
as a percentage of sales	(56.3%)	(54.7%)	
Trading operating profit	2 414	1 849	30.6%
as a percentage of sales	10.2%	7.9%	
Net financial expenses	(168)	(254)	(33.9%)
Taxes	(833)	(413)	101.7%
Profit for the year	3 285	1 000	228.5%
as a percentage of sales	13.9%	4.3%	
Operating cash flow	1 783	2 287	(22.0%)
as a percentage of sales	7.6%	9.7%	
Capital expenditure	(1 203)	(1 136)	5.9%
as a percentage of sales	(5.1%)	(4.8%)	

The NHI Group has delivered year-over-year improvements in sales. 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 2020, and improved operational efficiencies arising from our exit of the Direct-Store-Delivery (“DSD”) network, referred to as Frozen Transformation, which commenced in the second quarter of 2019. We made acquisitions within Health Science and the direct to consumer channel (Freshly).

Sales

For the years ended December 31, 2020 and 2019, consolidated sales totaled $23.6 and $23.5 billion, respectively. The main factors per segment are as follows:

- **Nestlé USA Brands** sales were $10.3 billion and $11.3 billion for the years ended December 31, 2020 and 2019, respectively. The overall decline in sales was driven by the Ice Cream disposal on January 31, 2020. Coffee-Mate, Nescafé and Starbucks branded products all grew at double-digit rates, supported by a strong innovation pipeline. Frozen food reported high single-digit growth, led by Stouffer's, DiGiorno and Hot Pockets. Home-baking products also saw elevated consumer demand and include Nestlé Toll House and Carnation.
- **Nestlé Purina PetCare** sales were $9.1 billion and $8.3 billion for the years ended December 31, 2020 and 2019, respectively. Purina PetCare saw strong momentum in e-commerce, particularly in its science-based and premium brands Purina Pro Plan, Purina ONE and Fancy Feast which all grew at double-digit rates.
- **Other** businesses sales were $4.2 billion and $3.9 billion for the years ended December 31, 2020 and 2019, respectively. The Others segment sales increased, primarily attributable to Nespresso and Nestlé Health Science which both achieved double-digit growth. Nutrition sales were in line with prior year while Nestlé Professional reported a sales decrease, reflecting reduced demand in out-of-home channels during pandemic lockdowns.

Profitability

Trading operating profit was $2.4 billion and $1.8 billion for the years ended December 31, 2020 and 2019, which equaled 10.2% and 7.9% of sales, respectively. The increase was driven by portfolio management, primarily the disposal of Ice Cream, reduced in-store activation during pandemic lockdowns and Frozen Transformation, which all more than offset COVID-19 related costs and commodity inflation.

Cost of goods sold was $13.3 billion and $12.9 billion for the years ended December 31, 2020 and 2019, which equaled 56.3% and 54.7% of sales, respectively. The increase, as a percentage of sales, was due to higher commodity costs and other variable expenses, partially offset by operational efficiency savings.

Distribution expenses were $2.0 billion and $2.2 billion for the years ended December 31, 2020 and 2019, which equaled 8.7% and 9.2% of sales, respectively. Favorability was mainly due to the disposal of Ice Cream and savings realized through Frozen Transformation.

Marketing, general and administrative expenses were $3.4 billion and $3.6 billion for the years ended December 31, 2020 and 2019, which equaled 14.3% and 15.4% respectively.

Net other trading income/(expenses) were $53 million and $(521) million for the years ended December 31, 2020 and 2019, respectively. The decrease in net other trading expense, resulting in a net other trading income, was primarily due to impairment charges related to property, plant and equipment and onerous contracts related to the exit of Direct-Store-Delivery (DSD) network for Frozen Pizza and Ice Cream in 2019 (Frozen Transformation).

Net Profit Margin – Other Items of Interest

Net financial expenses decreased by $86 million in 2020 primarily due to lower interest expense on financial debt.

Taxes increased by $420million in 2020, primarily as a result of an increase in profit before taxes.

Cash Flow

Operating cash flow was $1.8 billion and $2.3 billion for the years ended December 31, 2020 and 2019, respectively. The decrease in operating cash flow was primarily driven by changes in working capital as a result of higher levels of inventories to ensure that production and sales continued despite potential distruption due to COVID-19.

Principal Risks and Uncertainties

Risk Management

At the Nestlé S.A. level, the Nestlé Group Enterprise Risk Management (ERM) framework is designed to identify, assess and mitigate risks in order to minimize their potential impact on the Nestlé Group, including the NHI Group.

A top-down assessment is performed at the Nestlé Group level once a year to create a robust understanding of the Nestlé Group's most significant risks, and to allocate ownership to drive specific actions. A bottom-up assessment occurs in parallel resulting in the aggregation of individual assessments by all Nestlé markets and globally managed businesses of the Nestlé Group. These different risk mappings allow the NHI Group to make sound decisions on its future operations.

Risk assessments are the responsibility of business line management; this applies equally to a business or a function, and any mitigating actions identified in the assessments are the responsibility of the individual line management. If Nestlé S.A. intervention is required, responsibility for mitigating actions will generally be determined by the Nestlé Group Executive Board.

The results of the ERM are presented annually to the Nestlé Group Executive Board, half-yearly to the Audit Committee of Nestlé S.A., and reported annually to the Board of Directors of Nestlé S.A.

In 2020, the COVID-19 pandemic led to profound changes on operating environments across Nestlé markets. The exact impacts remain difficult to predict and will depend on the evolution and duration of outbreaks, as well as the policy actions and restrictions taken to mitigate the impacts. Nestlé S.A. assessed the potential impacts of the pandemic across Nestlé Group's risk universe and the risks listed below are considered the most relevant for our business and performance.

Factors Affecting Results

Maintaining high levels of trust with consumers is essential for the NHI Group's success. Any major event triggered by a serious food safety or other compliance issue could have a negative effect on the NHI Group's reputation or brand image. The NHI Group has policies, processes, controls and regular monitoring to ensure high-quality products and prevention of health risks arising from handling, preparation and storage throughout the value chain.

The success of the NHI Group depends on its ability to anticipate consumer preferences and to offer high quality, competitive, relevant, and innovative products. The NHI Group's Nutrition, Health and Wellness strategy aims to enhance people's lives at all stages through access to industry-leading research and development to drive innovation and the continuous improvement of the NHI Group's portfolio.

Prolonged negative perceptions concerning health implications of processed food and beverage categories could lead to an increase in regulation of the industry and may also influence consumer preferences. The NHI Group has long-term objectives in place to apply scientific and nutritional know-how to enhance nutrition, health and wellness, contributing to healthier eating, drinking and lifestyle habits, as well as improve accessibility of safe and affordable food.

Changing customer relationships and channel landscape may inhibit the NHI Group's growth if the NHI Group fails to maintain strong engagements or adapt to changing customer needs. The NHI Group's strategy is to maintain and develop strong relationships with customers across the United States to help them win in their respective prioritized categories where the NHI Group operates.

The NHI Group is dependent on the sustainable supply of a number of raw and packaging materials. Issues relating to longer-term changes in weather patterns, water shortages, shifts in production patterns, economic and social inequality in supply chains, etc. could result in capacity constraints, as well as reputational damage. The NHI Group has policies, processes, controls and regular monitoring in place which are intended to allow the NHI Group to anticipate such events and adequately mitigate against them.

The NHI Group manages risks related to climate change and water resources.

The NHI Group is subject to environmental regulation regimes and has controls in place to comply with legislation concerning the protection of the environment, including the use of natural resources, release of air emissions and waste water, and the generation, storage, handling, transportation, treatment, and disposal of waste materials.

The NHI Group is reliant on the procurement of materials, manufacturing and supply of finished goods for all product categories. A major event impacting input prices, or in one of the NHI Group's key plants, at a key supplier, contract manufacturer, co packer, and/or warehouse facility could potentially lead to a supply disruption. Active price risk management on key commodities and business continuity plans are established and regularly maintained in order to mitigate against such events.

The investment choices of the NHI Group evolve over time and may include investments in emerging technologies, new business models, and the creation of, or entry into, new categories. This may result in broader exposures for the NHI Group, e.g. a more highly regulated environment for the healthcare segment, etc. The NHI Group's investment choices are aligned with the NHI Group's strategy and prioritized based on the potential to create value over the long-term.

The NHI Group, as part of its strategy, undertakes business transformations such as large scale change management projects, mergers, and acquisitions. To ensure the realization of the anticipated benefits of these business transformations, they receive executive sponsorship with aligned targets as well as appropriate levels of resources to support successful execution of them.

The ability to attract and retain skilled, talented employees is critical to the success of the NHI Group's strategy. The NHI Group's initiatives and processes aim to sustain a high-performance culture, supported by a total awards approach and people development that emphasizes diversity, innovation and growth.

The NHI Group is subject to health and safety regimes and has procedures in place to comply with legislation concerning the protection of the health and welfare of employees and contractors, as well as long-term initiatives to promote safe and healthy employee behaviors.

The NHI Group depends on accurate, timely data along with increasing integration of digital solutions, services and models, both internal and external. Disruption impacting the reliability, security and privacy of the data, as well as the information technology infrastructure, is a threat to the NHI Group's business. Contingency plans along with policies and controls are in place aiming to protect and ensure compliance on both infrastructure and data.

The NHI Group's liquidity/liabilities (currency, interest rate, hedging, cost of capital, pension obligations/retirement benefits, banking/commercial credit, etc.) could be impacted by any major event in the financial markets. The NHI Group, along with its ultimate parent company, Nestlé S.A., has the appropriate risk mitigation measures in place with strong governance to actively manage exposures and long-term asset and liability outlook.

Security, political instability, legal and regulatory, fiscal, macroeconomic, foreign trade, labor, and/or infrastructure risks could potentially impact the NHI Group's ability to do business. Major events caused by natural hazards (such as flood, drought, infectious disease pandemics, etc.) could also impact the NHI Group's ability to operate. Any of these events could lead to a supply disruption and impact the NHI Group's financial results. Regular monitoring and ad hoc business continuity plans are established in order to mitigate against such events.

Outlook

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 financial objectives including continued increase in organic sales growth towards a mid single-digit rate, underlying Trading operating margin with continued moderate 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, prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), give a true and fair view of the assets, liabilities, financial position and profit or loss of NHI, and the undertakings included in the consolidation taken as a whole; and

(b) the management report includes a fair review of the development and performance of the business and the position of NHI and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

April 23, 2021

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Report of Independant Auditors

To the Board of Directors of Nestlé Holdings, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Nestlé Holdings, Inc. and its subsidiaries (the "NHI Group"), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

We are independent of the NHI Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United States of America together with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and we have fulfilled our other ethical responsibilities in accordance with these requirements, respectively.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with International Financial Reporting Standards issued by the International Accounting Standards Board; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the NHI Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the NHI Group or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the NHI Group's financial reporting process.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance but is not a guarantee that an audit will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. We design audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error because fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the NHI Group's internal control. Accordingly, we express no such opinion. An

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audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation, structure, and content of the consolidated financial statements, including disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

As part of an audit, we exercise professional judgment and maintain professional skepticism throughout the audit. We also

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the NHI Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the NHI Group to cease to continue as a going concern.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the NHI Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies or material weaknesses in internal control that we identify during our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibility* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	**How our audit addressed the key audit matter**
Measurement of sales as it relates to trade spend	
As described in Note 3 of the consolidated financial statements, sales are recognized when control of the goods has transferred to the customer, which is mainly upon arrival at the customer. Revenue is measured as the amount of consideration that the NHI Group expects to receive after deduction of returns, sales taxes, pricing allowances, other trade discounts, and	We assessed the NHI Group's revenue recognition accounting policies, including the recognition and classification criteria for trade spend. We evaluated monthly trends of trade spend. We performed a predictive analysis focused on trade spend as a percentage of sales by month, and by

couponing and price promotions to consumers. The level of discounts, allowances, and promotional rebates (collectively 'trade spend') are estimated and recognized as a deduction from revenue.

The risk of sales being misstated, through error, misinterpretation or misapplication of accounting standards and policies or intentional manipulation, may result from the pressure that management may feel to achieve performance targets. The nature of the misstatements may include bias in estimates, unrecorded accruals, or the misclassification of trade spend in the consolidated income statement.

We deemed the measurement of trade spend to be a key audit matter due to the materiality and complexity in estimating the amount of trade spend that is ultimately claimed. Management estimates the level of trade spend using judgments based on historical experience and the specific terms of the agreements with the customers. The estimates require the use of assumptions that are complex, given the diversity of trade spend arrangements and the uncertainty related to future outcomes. There is a risk that discounts, allowances, and promotional rebates to consumers are not properly measured or classified at the reporting date, resulting in a misstatement of sales.

customer. For a sample of trade spend, we considered if those items were properly classified with reference to the NHI Group's accounting policies.

For a sample of trade spend arrangements, we reconciled key inputs and assumptions used in the estimates with internal and external sources of information, such as the contracts with the relevant customers or other third-party support. We recalculated the accrual and income statement amounts to test mathematical accuracy.

We considered the aging of trade spend accruals based on our understanding of the average lead time for settlement. We reviewed the NHI Group's lookback analysis over the prior year end accrual balance and assessed the accuracy at which the NHI Group determined their accruals. We tested payments made to customers after the reporting date to assess the completeness of accruals and assessed whether recorded in the correct period.

We assessed the adequacy of the disclosures provided in Note 3 of the consolidated financial statements in relation to the relevant accounting standards.

Carrying value of goodwill and indefinite life intangible assets

As described in Note 9 of the consolidated financial statements, the NHI Group has $15.2 billion of goodwill and $4.2 billion of indefinite life intangibles assets. For all cash generating units (CGUs), goodwill and indefinite life intangibles are tested for impairment at least annually and when there is an indication of impairment. The impairment test is performed by comparing the carrying value of the assets of these CGUs with their recoverable amount.

There were no goodwill or indefinite life intangible impairment charges recognized in the year ended December 31, 2020 based on the NHI Group's recoverability assessment.

The recoverability of goodwill and indefinite life intangible assets is assessed using forecasted financial information within a discounted cash flow model. The assumptions used in the impairment tests, including projected cash flows, discount rates, and terminal growth rates, as well as allocation of assets to CGUs, are subject to management judgment.

We assessed whether the determination of CGUs, and whether the allocation of assets to CGUs, was appropriate. We obtained an understanding of the current macro-economic environment, the impact of COVID-19 on forecasted financial information and the outlook for a sample of CGUs through external market data and discussions with selected stakeholders within the NHI Group. We compared the forecasted cash flows with historical data. Where the forecasted cash flows differed from our expectations given the current environment and historical data, we obtained supporting explanations. We assessed assumptions in comparison to external market data. We performed sensitivity analyses around the key assumptions such as projected cash flows, discount rates, and terminal growth rates.

With the assistance of our valuation specialists we assessed the appropriateness of key assumptions, including discount rates and terminal growth rates, including independently deriving a range of discount rates and terminal growth rates, and we recalculated the recoverable amount determined by management. Further, we assessed the appropriateness of the methodology used and the consistent application thereof to the CGUs tested.

We assessed the adequacy of the disclosure provided in Note 9 of the consolidated financial statements in relation to the relevant accounting standards.

Completeness and valuation of uncertain tax positions

As described in Note 13 of the consolidated financial statements, the taxes and fiscal risks recognized in the consolidated financial statements reflect NHI Group management's best estimate of the outcome based on the facts known at the balance sheet date. These facts may include, but are not limited to, changes in tax laws and interpretations thereof in the United States. NHI Group is regularly subject to examination and audits by tax authorities, including the United States Internal Revenue Services. Certain matters involving transactions with other Nestlé S.A. affiliates, including royalty arrangements, financing arrangements, other transaction-related matters give rise to uncertain tax positions, and the related transfer pricing impacts. These uncertain tax positions inherently result in the application of management judgment in ascertaining reasonable estimates, which may lead to liabilities for uncertain tax positions being understated or overstated.

The identification and valuation of uncertain tax positions is a key audit matter because of the significant level of judgment and expertise required to interpret tax legislation and the related estimation uncertainty.

We assessed the application of the relevant standards, including but not limited to IFRIC 23, Uncertainty over Income Tax Treatments, in the accounting for uncertain tax positions.

We obtained an understanding of the uncertain tax positions arising from the transactions with other Nestlé S.A. affiliates, and we assessed the potential outcome of investigations by the authorities and whether uncertain tax positions are complete and reasonably measured.

Our tax specialists, including transfer pricing specialists, considered impacts of changes in tax legislation or business operations in the identification, measurement and recognition of uncertain tax positions. We reviewed available information related to significant on-going tax audits. We reviewed the recognized and unrecognized positions in comparison to tax audits' outcomes, when available, and gained an understanding if there were any deviations in outcome compared to amounts recognized. The significant intercompany transfer pricing models were assessed for compliance with, among other things, applicable laws, regulations and transfer guidance and we evaluated management's judgments regarding tax risks.

We assessed the adequacy of the disclosure provided in Note 13 of the consolidated financial statements in relation to the relevant accounting standards.

Other information included in the NHI Group's 2020 Annual Report

Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nestlé Holdings, Inc. and its subsidiaries at December 31, 2020, and the consolidated results of their financial performance and their cash flows for the year then ended in conformity with International Financial Reporting Standards issued by the International Accounting Standards Board.

Report of Other Auditors on December 31, 2019 Financial Statements

The consolidated financial statements of Nestlé Holdings, Inc. and its subsidiaries for the year ended December 31, 2019, were audited by other auditors who expressed an unmodified opinion on those statements on March 31, 2020.

The partner in charge of the audit resulting in this report of independent auditors is Michelle Montes.

Ernst & Young LLP

April 23, 2021

Consolidated income statement for the year ended December 31, 2020

In millions of Dollars

	Notes	2020	2019
Sales	3	**23 585**	**23 519**
Cost of goods sold		(13 267)	(12 871)
Distribution expenses		(2 050)	(2 170)
Marketing and administrative expenses		(3 383)	(3 627)
Royalties to affiliated company	16	(2 524)	(2 481)
Other trading income	4	172	118
Other trading expenses	4	(119)	(639)
Trading operating profit	3	**2 414**	**1 849**
Other operating income	4	2 067	186
Other operating expenses	4	(389)	(354)
Operating profit		**4 092**	**1 681**
Financial income	5	499	546
Financial expense	5	(667)	(800)
Profit before taxes and associates		**3 924**	**1 427**
Taxes	13	(833)	(413)
Income/(loss) from associates	14	194	(14)
Profit for the year		**3 285**	**1 000**
of which attributable to non-controlling interests		(5)	—
of which attributable to shareholders of the parent (Net profit)		3 290	1 000

Consolidated statement of comprehensive income for the year ended December 31, 2020

In millions of Dollars

	Notes	2020	2019
Profit for the year recognized in the consolidated income statement		**3 285**	**1 000**
Fair value adjustments on cash flow hedges, net of taxes		(28)	(55)
Items that are or may be reclassified subsequently to the consolidated income statement		(28)	(55)
Remeasurement of defined benefit plans, net of taxes	10	(171)	93
Fair value changes on equity instruments, net of taxes		—	1
Items that will never be reclassified to the consolidated income statement		(171)	94
Other comprehensive income for the year		**(199)**	**39**
Total comprehensive income for the year		**3 086**	**1 039**
of which attributable to non-controlling interests		(5)	—
of which attributable to shareholders of the parent		3 091	1 039

Consolidated balance sheet as at December 31, 2020

In millions of Dollars

	Notes	2020	2019
Assets			
Current assets			
Cash and cash equivalents	12/15	350	323
Short-term investments	12	18	13
Inventories	6	2 596	1 845
Trade and other receivables	7/12	2 275	1 913
Loans to parent and affiliates	12/16	19 844	15 457
Prepayments and accrued income		33	45
Derivative assets	12	75	1
Assets held for sale	2	35	2 112
Total current assets		**25 226**	**21 709**
Non-current assets			
Property, plant and equipment	8	6 633	5 909
Goodwill	9	15 209	14 286
Intangible assets	9	4 572	4 598
Investments in associates	14	17	25
Financial assets	12	1 334	1 320
Loans to parent and affiliates	16	1 224	264
Employee benefits assets	10	179	403
Deferred tax assets	13	—	799
Total non-current assets		**29 168**	**27 604**
Total assets		**54 394**	**49 313**

In millions of Dollars

	Notes	2020	2019
Liabilities and equity			
Current liabilities			
Financial debt	12	7 036	7 123
Trade and other payables	7/12	3 050	2 645
Loans from affiliates	16	442	79
Accruals and deferred income		2 053	1 794
Provisions	11	75	289
Derivative liabilities	12	13	309
Current income tax liabilities		874	683
Liabilities directly associated with assets held for sale	2	1	127
Total current liabilities		**13 544**	**13 049**
Non-current liabilities			
Financial debt	12	15 919	14 582
Employee benefits liabilities	10	1 810	1 722
Provisions	11	58	63
Deferred tax liabilities	13	815	1 285
Other payables		637	18
Total non-current liabilities		**19 239**	**17 670**
Total liabilities		**32 783**	**30 719**
Equity			
Share capital, $100 par value. Authorized, issued and outstanding 1,000 shares		—	—
Additional paid-in capital		5 705	5 624
Other reserves		(1 166)	(967)
Retained earnings		17 030	13 937
Total equity attributable to shareholders of the parent		**21 569**	**18 594**
Non-controlling interests		42	—
Total equity		**21 611**	**18 594**
Total liabilities and equity		**54 394**	**49 313**

Consolidated cash flow statement for the year ended December 31, 2020

In millions of Dollars	Notes	2020	2019
Operating activities			
Operating profit	15	4 092	1 681
Depreciation and amortization	15	697	732
Impairment	15	16	223
Net result on disposal of businesses	2/15	(1 943)	5
Other non-cash items of income and expense	15	(88)	(125)
Cash flow before changes in operating assets and liabilities		**2 774**	**2 516**
(Increase)/decrease in working capital	15	(262)	87
Variation of other operating assets and liabilities	15	(222)	181
Cash generated from operations		**2 290**	**2 784**
Interest paid		(649)	(765)
Interest received on loans to affiliates, net		480	529
Taxes paid		(338)	(261)
Operating cash flow		**1 783**	**2 287**
Investing activities			
Capital expenditure	8	(1 203)	(1 136)
Expenditure on intangible assets	9	(71)	(80)
Acquisition of businesses	2	(849)	(20)
Disposal of businesses	2	4 007	(53)
(Outflows)/inflows from short-term treasury investments		(6)	1 243
Other investing activities		249	79
Investing cash flow		**2 127**	**33**
Financing activities			
Loans to/from parent and affiliates, net	16	(4 391)	(1 422)
Inflows from bonds and other non-current financial debt	12	3 976	7
Outflows from bonds and other non-current financial debt	12	(2 080)	(1 673)
(Outflows)/inflows from current financial debt	12	(1 388)	723
Financing cash flow		**(3 883)**	**(2 365)**
Increase/(decrease) in cash and cash equivalents		**27**	**(45)**
Cash and cash equivalents at beginning of year		323	368
Cash and cash equivalents at end of year	15	**350**	**323**

Consolidated statement of changes in equity for the year ended December 31, 2020

In millions of Dollars

	Share capital	Additional paid-in capital	Other reserves	Retained earnings	**Total equity attributable to shareholders of the parent**	Non-controlling interests	**Total equity**
Equity as at January 1, 2019	**—**	**5 624**	**(1 003)**	**12 934**	**17 555**	**—**	**17 555**
Profit for the year	—	—	—	1 000	**1 000**	—	**1 000**
Other movements	—	—	(3)	3	**—**	—	**—**
Other comprehensive income for the year	—	—	39	—	**39**	—	**39**
Total comprehensive income for the year	**—**	**—**	**36**	**1 003**	**1 039**	**—**	**1 039**
Equity as at December 31, 2019	**—**	**5 624**	**(967)**	**13 937**	**18 594**	**—**	**18 594**
Equity as at January 1, 2020	**—**	**5 624**	**(967)**	**13 937**	**18 594**	**—**	**18 594**
Profit for the year	—	—	—	3 290	**3 290**	(5)	**3 285**
Other comprehensive income for the year	—	—	(199)	—	**(199)**	—	**(199)**
Total comprehensive income for the year	**—**	**—**	**(199)**	**3 290**	**3 091**	**(5)**	**3 086**
Changes in non-controlling interest	—	—	—	(197)	**(197)**	47	**(150)**
Capital contribution (see Note 16)	—	81	—	—	**81**	—	**81**
Equity as at December 31, 2020	**—**	**5 705**	**(1 166)**	**17 030**	**21 569**	**42**	**21 611**

Notes

1. Accounting policies

Accounting convention and accounting standards
The Consolidated Financial Statements comply with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

They have been prepared on a historical cost basis, unless stated otherwise. All consolidated companies, and associates have a December 31 accounting year-end. The Consolidated Financial Statements 2020 were authorized for issuance by NHI's directors on April 23, 2021.

Accounting policies
Accounting policies are included in the relevant notes to the Consolidated Financial Statements and are presented as text highlighted with a grey background. The accounting policies below are applied throughout the Consolidated Financial Statements.

Key accounting judgements, estimates and assumptions
The preparation of the Consolidated Financial Statements requires management to exercise judgment and to make estimates and assumptions that affect the application of policies, the reported amounts of revenues, expenses, assets, and liabilities and disclosures. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis. Actual results could differ from these estimates.

Those areas that involved a higher degree of judgment or uncertainty are explained further in the relevant notes, including assessment of control and estimating the fair value of net assets acquired in business combinations (see Note 2), recognition and estimation of revenue (see Note 3), presentation of additional line items and subtotals in the consolidated income statement (see Note 4), identification of cash generating units (CGUs) and estimation of recoverable amount for impairment tests (see Note 9), assessment of useful lives of intangible assets as finite or indefinite (see Note 9), measurement of employee benefit obligations (see Note 10), recognition and measurement of provisions (see Note 11) and estimation of current and deferred taxes, including uncertain tax positions (see Note 13). The impacts of COVID-19 on those judgments and uncertainties have been described in Note 17.

Foreign Currency
The functional currency of the NHI Group's entities (as defined herein) is the currency of their primary economic environment which is the "US Dollar".

In individual companies, transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at year-end rates. Any resulting exchange differences are taken to the consolidated income statement, except when deferred in Other comprehensive income as qualifying cash flow hedges.

Expenses
Cost of goods sold is determined on the basis of the cost of purchase or of production (comprised of the costs of raw and packaging material, direct labor, energy, manufacturing overheads and depreciation of factory assets, which are allocated to products using activity-based drivers), adjusted for the variation of inventories.

All other expenses, including those in respect of advertising and promotions, are recognized when the NHI Group receives the risks and rewards of ownership of the goods or when it receives the services. Government grants that are not related to assets are credited to the consolidated income statement as a deduction of the related expense when they are received, if there is reasonable assurance that the terms of the grant will be met.

Distribution expenses encompass the costs of storing products and transporting products between factories, warehouses and customer locations. It includes the costs of outsourced transportation services, salaries and wages of drivers, warehouse employees and customer service staff, as well as depreciation and running costs of warehouses and related storage, transportation and handling equipment.

Marketing and administration expenses include the costs of advertising and consumer promotion activities, merchandising, sales teams and head office functions such as finance, human resources, legal, information technology, supply chain and general management. It is primarily comprised of salaries, depreciation and maintenance of real estate, and the costs of third-party services.

Additional details of other trading income and expenses and other operating income and expenses are provided in the respective notes.

Reclassifications

Certain reclassifications have been made to amounts in prior years' financial statements to conform to current year presentation as a result of changes to 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 Consolidated Financial Statements. There was no significant impact on the current period.

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).

Changes in IFRS that may affect the NHI Group after December 31, 2020

There are no standards that are not yet effective and that would be expected to have a material impact on the NHI Group in the current or future reporting periods.

2. Scope of consolidation, acquisitions and disposals of businesses, assets held for sale and acquisitions of non-controlling interests

Scope of consolidation
Nestlé Holdings, Inc. (“NHI”) (herein, 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”).

The Consolidated Financial Statements comprise those of Nestlé Holdings Inc. and of its subsidiaries (the NHI Group). Companies which the NHI Group controls are fully consolidated from the date at which the NHI Group obtains control. The NHI Group controls a company when it is exposed to, or has rights to, variable returns from its involvement with the company and has the ability to affect those returns through its power over the company.

The list of principal subsidiaries are included below:
- Gerber Products Company
- Nespresso USA, Inc.
- Nestlé Capital Corporation
- Nestlé HealthCare Nutrition, Inc.
- Nestlé Insurance Holdings, Inc.
- Nestlé Purina PetCare Company
- Nestlé Regional Globe Office North America, Inc.
- Nestlé USA, Inc.
- TSC Holdings, Inc.

Business Combinations
Where not all of the equity of a subsidiary is acquired, the non-controlling interests are recognized at the non-controlling interest’s share of the acquiree’s net identifiable assets. Upon obtaining control in a business combination achieved in stages, the NHI Group remeasures its previously held equity interest at fair value and recognizes a gain or a loss in the consolidated income statement.

2.1 Modification of the scope of consolidation

Acquisitions
In 2020, the significant acquisition was:
- Freshly – healthy prepared meals (Prepared dishes and cooking aids) – 92% owned by Honey Holdings LLC (which was 74% owned by the NHI Group at the time of acquisition), end of October.
  Among several other non-significant acquisitions, Nation Pizza has been acquired in 2020.

There were no acquisitions in 2019.

Disposals
In 2020, there was one significant disposal:
- Ice Cream business (part of the Brands segment) – 100%, end of January.

There were no disposals in 2019.

2.2 Acquisitions of businesses

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

In millions of Dollars

			2020	2019
	Freshly	Other	**Total**	**Total**
Property, plant and equipment	77	29	**106**	—
Intangible assets	604	9	**613**	—
Inventories, prepaid inventories and other assets	72	54	**126**	—
Financial debt	(95)	—	**(95)**	—
Deferred taxes [(a)]	(120)	—	**(120)**	**12**
Other liabilities [(a)]	(51)	(34)	**(85)**	**(47)**
Fair value of identifiable net assets	**487**	**58**	**545**	**(35)**

(a) The amount in 2019 relates to an unfavorable contract relating to the licensed Starbucks business identified during the measurement period.

The goodwill arising on acquisitions and the cash outflows are:

In millions of Dollars

			2020	2019
	Freshly	Other	**Total**	**Total**
Fair value of consideration transferred	1 035	189	**1 224**	—
Non-controlling Interests	38	—	**38**	—
Fair value of pre-existing interests	220	—	**220**	—
Subtotal	1 293	189	**1 482**	—
Fair value of identifiable net (assets)/ liabilities	(487)	(58)	**(545)**	**35**
Goodwill	**806**	**131**	**937**	**35**
Fair value of consideration transferred	1 035	189	**1 224**	—
Cash and cash equivalents acquired	(52)	—	**(52)**	—
Consideration payable	(314)	(14)	**(328)**	—
Payment of consideration payable on prior years acquisitions	—	5	**5**	—
Cash outflow on acquisitions	**669**	**180**	**849**	—

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

The consideration transferred consists of payments made in cash with some consideration remaining payable. With regards to Freshly, the consideration payable includes an amount of contingent consideration with an estimated fair value of USD 314 million at the date of acquisition. The contingent consideration is in the form of an earn-out based on the achievement of sales and EBITDA in 2021, 2022 and 2023 and will be settled in cash to Freshly's former shareholders. The fair value (categorised within Level 3 of the fair value hierarchy) at acquisition was determined using a scenario-based approach which best reflects the characteristics of the earn-out. At 100% achievement of the business plan, the maximum undiscounted consideration over the 3 years would amount to USD 407 million. However, the earn-out has an upside with a potential incremental payout of 1% each year for every increase of 1% of sales and profit above the business plan. Any future change of the fair value of the consideration will be recorded in Other operating income or expenses.

Freshly

On October 30, 2020, the NHI Group acquired a controlling stake in Freshly, through its 74% holding in Honey Holdings LLC. Freshly was previously held as an associate (see Note 14). Freshly delivers a menu of fresh, prepared meals to customers across the United States. This transaction brings together Nestlé's deep understanding of what and how people eat at home with Freshly's highly specialized consumer analytics platform and distribution network to fuel growth opportunities within the Freshly business and across Nestlé's portfolio. The goodwill arising on this acquisition includes elements such as market share and growth potential in direct-to-consumer food as well as leveraging Nestlé expertise and presence in large-scale prepared meal manufacturing and research and development. It is not expected to be deductible for tax purposes.

Impacts of Freshly on the sales and profit for the year

Amounts included in the 2020 Consolidated Financial Statements from Freshly were sales of USD 76 million and a loss of USD 3 million.

The NHI Group's total sales and profit for the year would have respectively amounted to USD 24.0 billion and USD 3.3 billion if the acquisition had been effective January 1, 2020.

Acquisitions planned after December 31, 2020

On March 5, 2021 the NHI Group announced that it has acquired the Essentia Waters business (see Note 18).

2.3 Disposals of businesses

In 2020, the gain on disposal of businesses, recorded in Other operating income, is mainly composed of the gain on disposal of the Ice Cream business (part of the Brands segment).

			2020	2019
	US Ice Cream	Other	**Total**	**Total**
Property, plant and equipment	458	51	**509**	—
Goodwill and intangible assets	1 407	14	**1 421**	—
Cash, cash equivalents and short-term investments	1	—	**1**	—
Inventories	193	10	**203**	—
Other assets	39	—	**39**	—
Financial liabilities	(17)	—	**(17)**	—
Deferred tax liabilities	(88)	—	**(88)**	—
Other liabilities	(8)	(13)	**(21)**	(14)
Net assets disposed of	**1 985**	**62**	**2 047**	(14)
Profit/(loss) on disposals, net of disposal costs and impairments of assets held for sale	2 011	(68)	**1 943**	(8)
Total disposal consideration, net of disposal costs	**3 996**	**(6)**	**3 990**	(22)
Cash and cash equivalents disposed of	(1)	—	**(1)**	—
Disposal costs not yet paid	14	4	**18**	—
Cash inflow on disposals, net of disposal costs	**4 009**	**(2)**	**4 007**	(22)

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

2.4 Assets held for sale

Assets held for sale and disposal groups
Non-current assets held for sale and disposal groups are presented separately in the current section of the consolidated balance sheet when the following criteria are met: the NHI Group is committed to selling the asset or disposal group, it is available for immediate sale in its current condition, an active plan of sale has commenced, and in the judgment of management it is highly probable that the sale is expected to be completed within 12 months. Immediately before the initial classification of the assets and disposal groups as held for sale, the carrying amounts of the assets (or all the assets and liabilities in the disposal groups) are measured in accordance with their applicable accounting policy. Assets held for sale and disposal groups are subsequently measured at the lower of their carrying amount and fair value less cost to sell. Assets held for sale are no longer amortized or depreciated.

As of December 31, 2019, assets held for sale and liabilities directly associated with assets held for sale are mainly composed of the Ice Cream business which has been disposed of in 2020.

The composition of assets held for sale and liabilities directly associated with assets held for sale at the end of 2020 and of 2019 are the following:

In millions of Dollars	2020	2019
Inventories	8	165
Trade and other receivables, prepayments, accrued income and other assets	3	35
Property, plant, and equipment	24	511
Goodwill	—	1 401
Assets held for sale	**35**	**2 112**
Financial liabilities	—	15
Trade and other payables, accruals, and deferred income	1	8
Deferred taxes	—	104
Liabilities directly associated with assets held for sale	**1**	**127**
Net assets held for sale	**34**	**1 985**

2.5 Acquisitions of non-controlling interests

The NHI Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity holders in their capacity as equity holders. For purchases of shares from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity.

3. Analyses by segment

Segment reporting

Basis for segmentation

Operating segments reflect the NHI Group's management structure and the way financial information is regularly reviewed by the chief operating decision maker (CODM). The CODM has been defined as a body comprising 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 NHI Group's management structure is aligned with the Nestlé Group management structure and is organized around products.
- The Nestlé USA Brands segment forms part of the Nestlé Group Zone Americas segment. It consists primarily of beverages, snacks, frozen prepared foods, pizza, and other food products.
- The PetCare segment also forms part of the Nestlé Group Zone Americas segment and sells products for domestic pets.
- The Other businesses segment category comprises other operating segments that do not meet the criteria for separate reporting, such as the Nutrition segment (forming part of the Nestlé Group Zone Americas segment) and consists primarily of infant and baby food products; Nestlé Professional (forming part of the Nestlé Professional Regionally Managed Business (RMB) within Zone Americas), which sells products for the food services industry; and Nestlé Health Science which provides pioneering science based nutritional solutions to deliver improved personalized health care for people with medical conditions, and the Nespresso business unit.

Revenue and results by segment

Segment results (Trading operating profit) represent the contribution of the different segments to the trading operating profit of the NHI Group. In addition to the Trading operating profit, Underlying Trading operating profit is shown on a voluntary basis because it is one of the key metrics used by the Company to monitor the NHI Group on segment performance.

Depreciation and amortization include depreciation of property, plant and equipment (including right of use assets under leases) and amortization of intangible assets.

Invested capital and other information by segment

No segment assets and liabilities are regularly provided to the CODM to assess segment performance or to allocate resources and therefore segment assets and liabilities are not disclosed. However, the NHI Group discloses the invested capital, goodwill and intangible assets by segment on a voluntary basis.

Invested capital comprises property, plant and equipment, trade receivables and some other receivables, assets held for sale, inventories, prepayments and accrued income as well as specific financial assets associated to the segments, less trade payables and some other payables, liabilities directly associated with assets held for sale, non-current other payables as well as accruals and deferred income.

Goodwill and intangible assets are not included in invested capital since the amounts recognized are not comparable between segments due to differences in the intensity of acquisition activity and changes in accounting standards, which were applicable at various points in time when the NHI Group undertook significant acquisitions. Nevertheless, an allocation of goodwill and intangible assets by segment and the related impairment expenses are provided.

Invested capital and goodwill and intangible assets by segment represent the position at the end of the year.

Capital additions represent the total cost incurred to acquire property, plant and equipment (including right of use assets under leases), intangible assets and goodwill, including those arising from business combinations.

Revenue

Sales represent amounts received and receivables from third parties for goods supplied to the customers and for services rendered. Sales are recognized when control of the goods has transferred to the customer, which is mainly upon arrival at the customer.

Revenue is measured as the amount of consideration which the NHI Group expects to receive, based on the list price applicable to a given distribution channel after deduction of returns, sales taxes, pricing allowances, other trade discounts and couponing and price promotions to consumers. The level of discounts, allowances and promotional rebates is recognized as a deduction from revenue at the time that the related sales are recognized or when the rebate is offered to the customer (or consumer if applicable). They are estimated using judgments based on historical experience and the specific terms of the agreements with the customers. Payments made to customers for commercial services received are expensed. The NHI Group has a range of credit terms that are typically short term, in line with market practice and without any financing component. Sales returns are generally not allowed, except in limited cases mainly in the Infant Nutrition business. Historical experience is used to estimate such returns at the time of sale. No asset is recognized for products to be recoverable from these returns, as they are not anticipated to be resold.

Trade assets (mainly coffee machines) may be sold or leased separately to customers. Arrangements where the NHI Group transfers substantially all the risks and rewards incidental to ownership to the customer are treated as finance lease arrangements. Operating lease revenue for trade asset rentals is recognized on a straight-line basis over the lease term.

3.1 Operating segments

Revenue and results

In millions of Dollars

2020	Brands (a)	PetCare	Other (a)	Total
Sales	10 279	9 131	4 175	**23 585**
Underlying Trading operating profit (b)	843	1 314	204	**2 361**
Trading operating profit (loss)	900	1 322	192	**2 414**
Net other trading (expenses) income (c)	57	8	(12)	**53**
Of which impairment of property, plant and equipment	(10)	—	(6)	**(16)**
Of which restructuring costs	28	(2)	(3)	**23**
Depreciation and amortization	(276)	(285)	(136)	**(697)**

2019	Brands (a)	PetCare	Other (a)	Total
Sales	11 255	8 354	3 910	**23 519**
Underlying Trading operating profit (b)	1 289	821	260	**2 370**
Trading operating profit (loss)	803	835	211	**1 849**
Net other trading (expenses) income (c)	(479)	7	(49)	**(521)**
Of which impairment of property, plant and equipment	(187)	(8)	(28)	**(223)**
Of which restructuring costs	(146)	—	(2)	**(148)**
Depreciation and amortization	(297)	(254)	(181)	**(732)**

(a) Nestlé USA Brands primarily consists of beverage (including Nestlé Coffee Partners), prepared foods, ice cream (sold January 31, 2020), snacks, 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. Inter-segment sales are not significant.
(b) Trading operating profit before Net other trading (expenses)/income.
(c) Included in Trading operating profit.

Invested capital and other information

In millions of Dollars

2020	Brands (a)	PetCare	Other (a)	Total
Invested capital	1 981	3 126	1 382	**6 489**
Goodwill and intangible assets	9 446	8 890	1 445	**19 781**
Capital additions	2 001	855	207	**3 063**

2019	Brands (a)	PetCare	Other (a)	Total
Invested capital	3 718	2 871	1 061	**7 650**
Goodwill and intangible assets	8 880	8 742	1 262	**18 884**
Capital additions	538	556	155	**1 249**

(a) Nestlé USA Brands primarily consists of beverage (including Nestlé Coffee Partners) beverage, prepared foods, ice cream (sold January 31, 2020), snacks, 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.

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

In millions of Dollars

	2020	2019
Underlying Trading operating profit [a] as per Note 3.1	**2 361**	**2 370**
Net other trading income/(expenses)	53	(521)
Trading operating profit	**2 414**	**1 849**
Net other operating income/(expenses)	1 678	(168)
Operating profit	**4 092**	**1 681**
Net financial expense	(168)	(254)
Profit before taxes and associates	**3 924**	**1 427**

(a) Trading operating profit before Net other trading income/(expenses).

3.2b Reconciliation from invested capital, goodwill and intangible assets to total assets

In millions of Dollars

	2020	2019
Invested capital as per Note 3.1	6 489	7 650
Liabilities included in invested capital	5 085	4 658
Subtotal	11 574	12 308
Intangible assets and goodwill as per Note 3.1 [a]	19 781	18 885
Other assets	23 039	18 120
Total assets	**54 394**	**49 313**

(a) Including Intangible assets and goodwill classified as assets held for sale of USD nil (2019: USD 140 million), see Note 2.4.

3.3 Customers

The NHI Group has one customer, with sales in all segments of the business, amounting to 17% of the NHI Group's sales for each of the years ended December 31, 2020 and 2019.

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

Other trading income/(expenses)
These comprise restructuring costs, impairment of property, plant and equipment and intangible assets (other than goodwil), litigation and onerous contracts, result of disposal of property, plant and equipment, and specific other income and expenses that fall within the control of operating segments.

Restructuring costs are restricted to dismissal indemnities and employee benefits paid to terminated employees upon the reorganization of a business or function.

Other operating income/(expenses)
These comprise impairment of goodwill, results on disposals of businesses (including impairment and subsequent remeasurement of businesses classified as held for sale, as well as other directly related disposal costs like restructuring costs directly linked to businesses disposed of and legal, advisory and other professional fees), acquisition related costs, and income and expenses that fall beyond the control of operating segments or relate to events such as natural disasters and expropriation of assets.

4.1 Net other trading income/(expenses)

In millions of Dollars	2020	2019
Return on company-owned life insurance	81	101
Reversal of unused restructuring provisions	43	17
Gain on sale of real estate	48	—
Other trading income	**172**	**118**
Restructuring costs	(20)	(165)
Impairment of property, plant and equipment and intangible assets	(16)	(223)
Litigation and onerous contracts	(29)	(153)
Result on deferred compensation	(43)	(71)
Miscellaneous trading expenses	(11)	(27)
Other trading expenses	**(119)**	**(639)**
Total net other trading income/(expenses)	**53**	**(521)**

In 2019, other trading expenses are mainly comprised of $464 million of one-off costs representing impairment charges related to property, plant, restructuring costs, and onerous contracts and other expenses related to the decision taken by the Company in the second quarter of 2019 to exit of Direct-Store-Delivery (DSD) network for Frozen Pizza and Ice Cream.

4.2 Net other operating income/(expenses)

In millions of Dollars	2020	2019
Gain on disposal of businesses [a]	2 011	—
Miscellaneous operating income	56	186
Other operating income	**2 067**	**186**
Loss/expenditures on disposal of business [a]	(68)	(5)
Miscellaneous operating expenses	(321)	(349)
Other operating expenses	**(389)**	**(354)**
Total net other operating income/(expenses)	**1 678**	**(168)**

(a) See disposals of businesses (Note 2.3).

In 2020, profit on disposal of businesses relates to the result of disposal of the Ice Cream business (see Note 2.3).

5. Net financial income/(expense)

Net financial income/(expense) includes net financing cost of net financial debt and net interest income/(expense) on defined benefit plans.

Net financing cost comprises the interest income earned on cash and cash equivalents, short- term investments and loans to parent and affiliates, as well as the interest expense on financial debt (including leases), and loans from affiliates, collectively termed "net financial debt". These headings also include other income and expense such as exchange differences on net financial debt and results on related foreign currency and interest rate hedging instruments. Certain borrowing costs are capitalized as explained under the section "Property, plant and equipment".

In millions of Dollars

	Notes	2020	2019
Interest income		486	532
Interest expense		(638)	(758)
Net financing cost of net debt		**(152)**	**(226)**
Interest income on defined benefit plans	10	13	14
Interest expense on defined benefit plans	10	(33)	(42)
Net interest expense on defined benefit plans		**(20)**	**(28)**
Other		4	(0)
Net financial expenses		**(168)**	**(254)**

Interest expenses on amounts due to affiliated companies, and bonds and commercial paper guarantee fees to Nestlé S.A. amounted to $80 million in both 2020 and 2019, respectively. Interest income on amounts due from parent and affiliated companies amounted to $486 million and $520 million in 2020 and 2019, respectively.

6. Inventories

Raw materials are valued at the lower of purchase cost calculated using the FIFO (first-in, first-out) method and net realizable value. Work in progress, sundry supplies and finished goods are valued at the lower of their weighted average cost (including an allocation of factory overheads and depreciation) and net realizable value. The cost of inventories includes the gains/losses on cash flow hedges for the purchase of raw materials and finished goods.

In millions of Dollars

	2020	2019
Raw materials and work in progress	738	593
Finished goods	1 897	1 286
Allowance for write-down to net realizable value	(39)	(34)
	2 596	**1 845**

7. Trade and other receivables/payables

7.1 Trade and other receivables

Recognition and measurement

Trade and other receivables are recognized initially at their transaction price and subsequently measured at amortized cost less loss allowances. Other receivables are comprised mainly of receivables for indirect taxes.

Expected credit losses

The NHI Group applies the IFRS 9 simplified approach to measuring expected credit losses (ECLs) for trade receivables at an amount equal to lifetime ECLs. The ECLs on trade receivables are calculated based on actual credit loss experience over the preceding three to five years on the total balance of non-credit impaired trade receivables, adjusted considering forward-looking information where relevant (such as significant deterioration in the economic environment). The NHI Group's credit loss experience has shown that the aging of receivable balances is primarily due to negotiations about variable consideration.

The NHI Group considers a trade receivable to be credit impaired when one or more detrimental events have occurred such as:

- significant financial difficulty of the customer; or
- it is becoming probable that the customer will enter bankruptcy or other financial reorganization.

Impairment losses related to trade and other receivables are not presented separately in the consolidated income statement but are reported under the heading Marketing and administrative expenses.

In millions of Dollars

			2020			2019
	Gross carrying amount	Expected credit loss allowance	**Total**	Gross carrying amount	Expected credit loss allowance	**Total**
Trade receivables (not credit impaired)	1 950	(10)	**1 940**	1 808	(4)	**1 804**
Other receivables (not credit impaired)	335	—	**335**	108	—	**108**
Credit impaired trade and other receivables	1	(1)	**—**	1	—	**1**
Total	**2 286**	**(11)**	**2 275**	**1 917**	**(4)**	**1 913**

The five major customers represent 40% (2019: 46%) of trade and other receivables, none of them individually exceeding 19% (2019: 20%).

Based on the historic trends and the expected performance of the customers, the NHI Group believes that the above expected credit loss allowance sufficiently covers for the risk of default.

7.2 Trade and other payables by type

Recognition and measurement
Trade and other payables are recognized initially at their transaction price and subsequently measured at amortized cost.

Supplier finance arrangements
The NHI Group participates in supplier finance arrangements under which suppliers may elect to receive early payment from financial institutions by factoring their receivables from the NHI Group. The arrangements avoid concentration of liquidity risk, since the due dates of the payments by the NHI Group are based on the agreed trade terms with the suppliers, are compliant with the applicable regulations and remain consistent with the normal operating cycle of its business. The NHI Group continues to present invoices eligible to be settled through these programs as Trade payables considering that the original liability is neither legally released nor substantially modified on entering into such arrangements. Related payments are included within operating cash flows because they remain operational in nature.

In millions of Dollars

	2020	2019
Due within one year		
Trade payables	3 046	2 636
Other payables	4	9
	3 050	**2 645**

8. Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

In millions of Dollars	2020	2019
Property, plant and equipment – owned	5 968	5 316
Right-of-use assets – leased	665	593
	6 633	**5 909**

8.1 Owned assets

Owned property, plant and equipment are shown on the balance sheet at their historical cost.

Depreciation is assessed on components that have homogenous useful lives by using the straight-line method so as to depreciate the initial cost down to the residual value over the estimated useful lives. The residual values are up to 30% on the head office and nil for all other asset types. The useful lives are as follows:

- Buildings 20–40 years
- Machinery and equipment 10–25 years
- Tools, furniture, information technology and sundry equipment 3–15 years
- Vehicles 3–10 years
- Land is not depreciated

Useful lives, components, and residual amounts are reviewed annually. Such a review takes into consideration the nature of the assets, their intended use including but not limited to the closure of facilities and the evolution of the technology and competitive pressures that may lead to technical obsolescence.

Depreciation of property, plant and equipment is allocated to the appropriate headings of expenses by function in the consolidated income statement.

Borrowing costs incurred during the course of construction are capitalized if the assets under construction are significant and if their construction requires a substantial period to complete (typically more than one year). The capitalization rate is determined on the basis of the short-term borrowing rate for the period of construction. Government grants are recognized as deferred income, which is released to the consolidated income statement over the useful life of the related assets.

In millions of Dollars

2020	Land and buildings	Plant and machinery	Tools, furniture, and sundry	Vehicles	Information technology equipment	Total
Net carrying amount						
At January 1, 2020	2 659	2 331	205	9	112	**5 316**
Capital expenditure [a]	686	420	65	9	35	**1 215**
Acquisitions through business combinations	46	45	3	1	3	**98**
Depreciation	(104)	(326)	(62)	(6)	(53)	**(551)**
Impairment of assets (Note 4)	6	(1)	(13)	(8)	—	**(16)**
Disposals	(12)	(11)	(14)	—	(1)	**(38)**
Classification (to)/from held for sale and disposals of businesses	(31)	(24)	(1)	—	—	**(56)**
At December 31, 2020	**3 250**	**2 434**	**183**	**5**	**96**	**5 968**
Gross value	4 459	6 207	778	87	375	**11 906**
Accumulated depreciation and impairments	(1 209)	(3 773)	(595)	(82)	(279)	**(5 938)**

2019	Land and buildings	Plant and machinery	Tools, furniture, and sundry	Vehicles	Information technology equipment	Total
Net carrying amount						
At January 1, 2019	2 638	2 431	247	18	117	**5 451**
Capital expenditure [a]	517	325	58	15	42	**957**
Depreciation	(89)	(311)	(76)	(23)	(49)	**(548)**
Impairment of assets (Note 4)	(48)	(8)	(4)	—	(1)	**(61)**
Disposals	(248)	174	34	(6)	10	**(36)**
Classification (to)/from held for sale and disposals of businesses	(111)	(280)	(54)	5	(7)	**(447)**
At December 31, 2019	**2 659**	**2 331**	**205**	**9**	**112**	**5 316**
Gross value	3 807	5 857	750	78	342	**10 835**
Accumulated depreciation and impairments	(1 148)	(3 526)	(545)	(69)	(230)	**(5 519)**

(a) Including borrowing costs.

At December 31, 2020 and 2019, property, plant and equipment included $1180 million and $569 million respectively, of assets under construction. There were $1735 million and $204 million in commitments for future capital expenditures as of December 31, 2020 and 2019, respectively. The increase is mostly driven by new factories for the Purina segment.

Impairment of property, plant and equipment
Reviews of the carrying amounts of the NHI Group's property, plant and equipment are performed when there is an indication of impairment. An indicator could be unfavorable development of a business under competitive pressures or severe economic slowdown in a given market as well as reorganization of the operations to leverage their scale.

In assessing value in use, the estimated future cash flows are discounted to their present value, based on the time value of money and any risks specific to the asset's location. The risks specific to the asset are included in the determination of the cash flows.

Impairment of property, plant and equipment arises mainly from the plans to optimize industrial manufacturing capacities by closing or selling inefficient production facilities as well as underperforming businesses.

8.2 Leases – Group as a lessee

The NHI Group assesses whether a contract is or contains a lease at inception of the contract. This assessment involves the exercise of judgment about whether it depends on a specified asset, whether the NHI Group obtains substantially all the economic benefits from the use of that asset, and whether the NHI Group has the right to direct the use of the asset.

The NHI Group recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date, except for short-term leases of 12 months or less which are expensed in the consolidated income statement on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If this rate cannot be readily determined, the NHI Group uses an incremental borrowing rate specific to the country, term and currency of the contract. Lease payments can include fixed payments; variable payments that depend on an index or rate known at the commencement date; and extension option payments or purchase options which the NHI Group is reasonably certain to exercise. The lease liability is subsequently measured at amortized cost using the effective interest rate method and remeasured (with a corresponding adjustment to the related ROU asset) when there is a change in future lease payments in case of renegotation, changes of an index or rate in case of reassessment of options.

At inception, the ROU asset comprises the initial lease liability, initial direct costs and the obligations to refurbish the asset, less any incentives granted by the lessors. The ROU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator for impairment, as for owned assets.

ROU assets are included in the heading Property, plant and equipment, and the lease liability is included in the headings current and non-current Financial debt.

8.2a Description of lease activities

Real estate leases

The NHI Group leases land and buildings for its office and warehouse space and retail stores. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are typically made for a fixed period of 5–15 years and may include extension options which provide operational flexibility. If the NHI Group exercised all extension options not currently included in the lease liability, the additional payments would amount to $578 million (undiscounted) at December 31, 2020.

Vehicles leases
The NHI Group leases trucks for distribution in specific businesses and cars for management and sales functions. The average contract duration is 6 years for trucks and 3 years for cars.

Other leases
The NHI Group also leases Machinery and equipment and Tools, furniture and other equipment that combined are insignificant to the total leased asset portfolio.

8.2b Right-of-use assets

In millions of Dollars

2020	Land and buildings	Vehicles	Other	Total
Net carrying amount				
At January 1, 2020	515	44	34	**593**
Additions	50	35	10	**95**
Depreciation	(55)	(16)	(17)	**(88)**
Impairments	15	(14)	—	**1**
Classification to/from held for sale and change of scope of consolidation, net	84	(21)	1	**64**
At December 31, 2020	**609**	**28**	**28**	**665**

2019	Land and buildings	Vehicles	Other	Total
Net carrying amount				
At January 1, 2019	558	152	38	**748**
Additions	89	77	15	**181**
Depreciation	(82)	(26)	(18)	**(126)**
Impairments	(36)	(102)	(1)	**(139)**
Classification to/from held for sale and change of scope of consolidation, net	(14)	(57)	—	**(71)**
At December 31, 2019	**515**	**44**	**34**	**593**

8.2c Other lease disclosures

A maturity analysis of lease liabilities is shown in Note 12.2b.

The NHI Group incurred interest expense on lease liabilities of $22 million (2019: $13 million). The expense relating to short-term leases and variable lease payments not included in the measurement of lease liabilities is not significant. The total cash outflow for leases amounted to $135 million (2019: $273 million).

There are no significant lease commitments for leases not commenced at year-end.

9. Goodwill and intangible assets

Goodwill
Goodwill is initially recognized during a business combination (see Note 2). Subsequently it is measured at cost less impairment.

Intangible Assets
This heading includes intangible assets that are internally generated or acquired, either separately or in a business combination, when they are identifiable and can be reliably measured. Internally generated intangible assets (essentially management information system software) are capitalized provided that there is an identifiable asset that will be useful in generating future benefits in terms of savings, economies of scale, etc.

Indefinite life intangible assets mainly comprise operating rights which can be renewed without significant cost and are supported by ongoing marketing activities. They are not amortized but are tested for impairment annually or more frequently if an impairment indicator is triggered. Any impairment charge is recorded in the consolidated income statement under Other trading expenses. The assessment of the classification of intangible assets as indefinite is reviewed annually.

Finite life intangible assets are amortized over the shorter of their contractual or useful economic lives. They comprise mainly management information systems, rights and customer relationships. They are amortized on a straight-line basis assuming a zero residual value. Useful lives are as follows: management information systems over 3 to 8 years; other finite intangible assets over the estimated useful life or the related contractual period, generally 5 to 20 years. Useful lives and residual values are reviewed annually. Amortization of finite life intangible assets starts when they are available for use and is allocated to the appropriate headings of expenses by function in the consolidated income statement under Other trading expenses.

In millions of Dollars

	2020	
	Goodwill	Intangible assets
Net carrying amount		
At January 1, 2020	14 286	4 598
Expenditure	—	97
Acquisitions through business combinations	937	613
Amortization	—	(59)
Disposals [(a)]	—	(667)
Classification to held for sale and disposals of businesses	(14)	(10)
At December 31, 2020	**15 209**	**4 572**
of which indefinite useful life [(b)]	—	4 200
At December 31, 2020		
Gross value	18 668	5 736
Accumulated amortization and impairments	(3 459)	(1 164)

	2019	
	Goodwill	Intangible assets
Net carrying amount		
At January 1, 2019	15 652	4 599
Expenditure	—	80
Acquisitions through business combinations	35	2
Amortization	—	(58)
Impairment	—	(23)
Disposals	—	(2)
Classification to held for sale and disposals of businesses	(1 401)	—
At December 31, 2019	**14 286**	**4 598**
of which indefinite useful life [(b)]	—	4 276
At December 31, 2019		
Gross value	18 791	5 711
Accumulated amortization and impairments	(4 505)	(1 113)

(a) Includes the sale of a trademark to a Nestlé Group affiliate, see Note 16.
(b) Of which $4200 million (2019: $4276 million) are perpetual rights to market, sell and distribute certain Starbucks' consumer and foodservice products globally.

Impairment of goodwill and intangible assets

Goodwill and intangible assets with an indefinite life or not yet available for use are tested for impairment at least annually and when there is an indication of impairment. Finite life intangible assets are tested when there is an indication of impairment.

The annual impairment tests are performed at the same time each year and at the cash generating unit (CGU) level. The NHI Group defines its CGU for goodwill impairment testing based on the way that it monitors and derives economic benefits from the acquired goodwill.

In 2020, the NHI Group reviewed the 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 and integration of recently acquired businesses such as Starbucks. 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 number of CGUs identified for testing goodwill declined from more than 15 to 10 in 2020.

For indefinite life intangible assets, the NHI Group defines its CGU as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The impairment tests are performed by comparing the carrying value of the assets of these CGU with their recoverable amount, usually based on their fair value less costs of disposal, but occasionally on their value in use.

An impairment loss in respect of goodwill is never subsequently reversed.

9.1 Impairment

9.1.1 Impairment charge during the year

In 2020, no impairments of intangible assets have been recognised with no impairments of goodwill.

The 2019 intangible assets impairment charge relates to Operating Rights and Others and Management Information Systems.

9.1.2 Annual impairment tests

Impairment reviews have been conducted for ten Cash Generating Units (CGU). The following table sets out the key assumptions for those CGUs that have significant Goodwill or Intangible assets with an indefinite useful life allocated to them.

2020	Carrying amount	Period of cash flow projections	Average annual sales growth	Annual margin evolution	Terminal growth rate	Discount rate *
Goodwill CGU						
PetCare	8 814	5 years	4.3%	Declining	1.5%	6.0%
Food	3 059	5 years	2.6%	Improvement	1.5%	6.8%
Subtotal	11 873					
Other CGUs	3 336					
Total Goodwill	**15 209**					
Intangible assets with indefinite useful life CGU						
Nestlé Starbucks Coffee US	4 195	5 years	3.8%	Improvement	1.4%	5.8%
Subtotal	4 195					
Other CGUs	5					
Total Intangible assets with indefinite useful life	**4 200**					

2019	Carrying amount	Period of cash flow projections	Average annual sales growth	Annual margin evolution	Terminal growth rate	Discount rate *
Goodwill CGU						
PetCare	8 814	5 years	3.1% to 5.5%	Declining	2.0%	8.2%
Subtotal	8 814					
Other CGUs	5 472					
Total Goodwill	**14 286**					
Intangible assets with indefinite useful life CGU						
Nestlé Starbucks Coffee US	4 271	5 years	3.7% to 4.7%	Improvement	2.3%	7.7%
Subtotal	4 271					
Other CGUs	5					
Total Intangible assets with indefinite useful life	**4 276**					

* Cash flows have been discounted at a post-tax weighted average rate in 2020 and at a pre-tax weighted average rate in 2019.

For each CGU the recoverable amount is higher than its carrying amount. In 2020, the recoverable amount has been determined based upon a fair value less costs of disposal calculation (2019: value in use calculation). Generally, no directly observable market inputs are available to assess the fair value less costs of disposal. Therefore, the calculation is based on net present value techniques (fair value measurements categorized within Level 3 of the fair value hierarchy). Cash flows have been projected over 5 years. They have been extrapolated using a steady or declining terminal growth rate.

The following has been taken into account in the impairment tests:

- The discount rates have been computed based on external sources of information and reflect the time value of money and the risks specific to the CGU.
- The cash flows were based upon financial plans approved by Nestlé Group Management which are consistent with the NHI Group's approved strategy for this period. They are based on past performance and current initiatives. The business risk is included in the determination of the cash flows.
- The terminal growth rates have been determined to reflect the long-term view of the nominal evolution of the business.
- The cash flows, the discount rates and the terminal growth rates include inflation.

The NHI Group assesses the uncertainty of these estimates by performing sensitivity analyses. Management believes that no reasonably possible change in any of the above key assumptions would cause the CGU's recoverable amount to fall below the carrying value of the CGUs.

10. Employee benefits

10.1 Employee remuneration
The NHI Group's salaries of $2673 million (2019: $2737 million) and welfare expenses of $736 million (2019: $833 million) represent a total of $3409 million (2019: $3570 million). In addition, certain NHI Group employees are eligible to long-term incentives in the form of equity compensation plans, for which the cost amounts to $124 million (2019: $144 million). Employee remuneration is allocated to the appropriate headings of expenses by function.

10.2 Post-employment benefits

The liabilities of the NHI Group arising from defined benefit obligations, and the related current service cost, are determined using the projected unit credit method. Actuarial advice is provided both by external consultants and by actuaries employed by the NHI Group who perform valuations on an annual basis. Such plans are either externally funded (in the form of independently administered funds) or unfunded. The deficit or excess of the fair value of plan assets over the present value of the defined benefit obligation is recognized as a liability or an asset on the balance sheet.

Pension cost charged to the consolidated income statement consists of service cost (current and past service cost, gains and losses arising from curtailment and settlement) and administration costs (other than costs of managing plan assets), which are allocated to the appropriate heading by function, and net interest expense or income, which is presented as part of net financial income/(expense). The actual return less interest income on plan assets, changes in actuarial assumptions, and differences between actuarial assumptions and what has actually occurred are reported in other comprehensive income. Some benefits are also provided by defined contribution plans. Contributions to such plans are charged to the consolidated income statement as incurred.

Pensions and retirement benefits
In the USA, Nestlé's primary pension plan is a pension equity design, under which members earn pension credits each year based on a schedule related to the sum of their age and service with Nestlé. A member's benefit is the sum of the annual pension credits earned multiplied by an average earning payable as a lump sum. However, in lieu of the lump sum, members have the option of converting the benefit to a monthly pension annuity. The plan does not provide for automatic pension increases and members do not contribute to the plan. This plan was closed to new entrants at the end of 2015 and replaced by a defined contribution scheme. The pension plan is sufficiently funded on a local statutory basis such that no contributions were required in 2020.

Post-employment medical benefits and other employee benefits
The NHI Group maintains medical benefit plans, classified as defined benefit plans under IAS 19, which cover eligible retired employees. The obligations for other employee benefits consist mainly of post service healthcare benefits, which do not have the characteristics of pensions.

Multi-employer pension plans
The NHI Group is a member of four multi-employer pension plans (MEPPs), including Central States Teamsters MEPP. Nestle makes contributions to these plans based on a rate per hour agreed with the applicable Unions. The NHI Group is not liable to these plans for other entities' obligations under the terms and conditions of these MEPPs.

Risks related to defined benefit plans

The main risks to which the NHI Group is exposed in relation to operating defined benefit plans are:

- market and liquidity risks: these are the risks that the investments do not meet the expected returns over the medium to long term. This also encompasses the mismatch between assets and liabilities. In order to minimize the risks, the structure of the portfolios is reviewed and asset-liability matching analyses are performed on a regular basis.
- mortality risk: the assumptions adopted by the NHI Group make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the plans and consequently increases in the plans' liabilities. In order to minimize this risk, mortality assumptions are reviewed on a regular basis.

As certain of the NHI Group's pension arrangements permit benefits to be adjusted in the case that downside risks emerge, the NHI Group does not always have full exposure to the risks described above.

Plan amendments and restructuring events

Plans within the NHI Group are regularly reviewed as to whether they are aligned with market practice in the local context. Should a review indicate that a plan needs to be changed, prior agreement with the local Board of Trustees or the General Assembly, the regulator and, if applicable, the members, is sought before implementing plan changes.

During the year, there were individually non-significant plan amendments and restructuring events which have been recognized as past service cost. The related past service costs in 2020 were $5 million (2019: $8 million) and have been recognized in the consolidated income statement primarily under Net other operating expenses.

Asset-liability management and funding arrangement

The NHI Group's investment committee is responsible for determining the mix of asset classes and target allocations of the NHI Group's plans with the support of investment advisors. Periodic reviews of the asset mix are made by mandating external consultants to perform asset liability matching analyses. Such analyses aim at comparing dynamically the fair value of assets and the liabilities in order to determine the most adequate strategic asset allocation.

The overall investment policy and strategy for the NHI Group's funded defined benefit plans is guided by the objective of achieving an investment return which, together with the contributions paid, is sufficient to maintain reasonable control over the various funding risks of the plans. As those risks evolve with the development of capital markets and asset management activities, the NHI Group addresses the assessment and control process of the major investment pension risks. In order to protect the NHI Group's defined benefit plans funding ratio and to mitigate the financial risks, protective measures on the investment strategies are in force. To the extent possible, the risks are shared equally amongst the different stakeholders.

10.2a Reconciliation of assets and liabilities recognized in the balance sheet

In millions of Dollars

	2020			2019		
	Defined benefit retirement plans	Post employment medical benefits	**Total**	Defined benefit retirement plans	Post employment medical benefits	**Total**
Present value of funded obligations	4 398	—	**4 398**	4 058	—	**4 058**
Fair value of plan assets	(4 577)	—	**(4 577)**	(4 461)	—	**(4 461)**
Excess of liabilities/(assets) over funded obligations	(179)	—	**(179)**	(403)	—	**(403)**
Present value of unfunded obligations	565	630	**1 195**	445	577	**1 022**
Net Defined Benefit Liabilities	**386**	**630**	**1 016**	**42**	**577**	**619**
Other employee benefit liabilities			**615**			**700**
Net Liabilities			**1 631**			**1 319**
Reflected in the consolidated balance sheet as follows:						
Employee benefit assets			**(179)**			**(403)**
Employee benefit liabilities			**1 810**			**1 722**
Net Liabilities			**1 631**			**1 319**

10.2b Movement in present value of defined benefit obligations

In millions of Dollars

	2020			2019		
	Defined benefit retirement plans	Post employment medical benefits	**Total**	Defined benefit retirement plans	Post employment medical benefits	**Total**
At January 1	4 503	577	**5 080**	4 172	552	**4 724**
of which funded defined benefit plans	4 058	—	**4 058**	3 722	—	**3 722**
of which unfunded defined benefit plans	445	577	**1 022**	450	552	**1 002**
Service cost	140	10	**150**	136	12	**148**
of which current service cost	143	12	**155**	144	12	**156**
of which past service cost and (gains)/losses arising from settlements	(3)	(2)	**(5)**	(8)	—	**(8)**
Interest expense	141	17	**158**	170	22	**192**
Actuarial losses	549	60	**609**	463	26	**489**
Benefits paid on funded defined benefit plans	(403)	—	**(403)**	(380)	—	**(380)**
Benefits paid on unfunded defined benefit plans	(55)	(34)	**(89)**	(58)	(35)	**(93)**
Reclassification of Executive savings plan (a)	88	—	**88**	—	—	**—**
At December 31	**4 963**	**630**	**5 593**	**4 503**	**577**	**5 080**
of which funded defined benefit plans	4 398	—	**4 398**	4 058	—	**4 058**
of which unfunded defined benefit plans	565	630	**1 195**	445	577	**1 022**

(a) Previously disclosed within Other employee benefit liabilities.

10.2c Movement in the fair value of defined benefit assets

In millions of Dollars

	2020 Defined benefit retirement plans	2019 Defined benefit retirement plans
At January 1	4 461	4 063
Interest income	140	165
Actual return on plan assets, excluding interest income	379	613
Employer contributions	55	58
Benefits paid on funded/unfunded defined benefit plans	(458)	(438)
At December 31	**4 577**	**4 461**

The major categories of plan assets as a percentage of total plan assets:

In millions of Dollars

	2020	2019
December 31:		
Equities	25%	24%
Debts	63%	63%
of which government debts	34%	33%
of which corporate debts	29%	30%
Alternative investments	12%	13%

Equities and government debts represent 59% (2019: 57%) of the plan assets. Almost all of them are quoted in an active market. Corporate debts, real estate, hedge funds and private equities represent 41% (2019: 43%) of the plan assets. Almost all of them are either not quoted or quoted in a market which is not active.

10.2d Expenses recognized in the consolidated income statement

In millions of Dollars

	2020			2019		
	Defined benefit retirement plans	Post employment medical benefits and other benefits	**Total**	Defined benefit retirement plans	Post employment medical benefits and other benefits	**Total**
Service cost	134	9	**143**	131	12	**143**
Net interest (income)/expense	3	17	**20**	7	21	**28**
Administration expenses	10	—	**10**	11	—	**11**
Defined benefit expenses	**147**	**26**	**173**	**149**	**33**	**182**
Defined contribution expenses			**92**			**93**
Total expenses			**265**			**275**

The expenses for defined benefit and defined contribution plans are allocated to the appropriate headings of expenses by function.

10.2e Remeasurement of defined benefit plans reported in other comprehensive income

In millions of Dollars

	2020			2019		
	Defined benefit retirement plans	Post employment medical benefits	**Total**	Defined benefit retirement plans	Post employment medical benefits	**Total**
Actual return on plan assets, excluding interest income	379	—	**379**	613	—	**613**
Experience adjustments on plan liabilities	(63)	(2)	**(65)**	(15)	31	**16**
Change in demographic assumptions on plan liabilities	(10)	(10)	**(20)**	66	7	**73**
Change in financial assumptions on plan liabilities	(475)	(48)	**(523)**	(514)	(64)	**(578)**
Remeasurement of defined benefit plans	**(169)**	**(60)**	**(229)**	**150**	**(26)**	**124**

10.2f Principal financial actuarial assumptions

The principal financial actuarial assumptions are presented below. Each item is a weighted average in relation to the relevant underlying component.

In millions of Dollars

	2020	2019
Principal financial actuarial assumptions:		
Discount rates	2.50%	3.25%
Expected rates of salary increases	3.50%	3.00%
Medical cost trend rates	4.5%-6.25%	5.0%-6.5%

10.2g Mortality tables and life expectancies

In millions of Dollars

	Life expectancy at age 65 for a male member currently aged 65 (in years)		Life expectancy at age 65 for a female member currently aged 65 (in years)	
	2020	2019	2020	2019
Mortality table				
PRI-2012	20.8	20.7	22.8	22.7

Life expectancy is reflected in the defined benefit obligations by using the best estimate of the mortality of plan members. When appropriate, base tables are adjusted to take into consideration expected changes in mortality e.g. allowing for future longevity improvements.

10.2h Sensitivity analyses on present value of defined benefit obligations

The table below gives the present value of the defined benefit obligations when major assumptions are changed.

In millions of Dollars	2020	2019
As reported	**5 593**	**5 080**
Discount rates		
Increase of 50 basis points	5 259	4 798
Decrease of 50 basis points	5 964	5 402
Expected rates of salary increases		
Increase of 50 basis points	5 633	5 120
Decrease of 50 basis points	5 554	5 041
Medical cost trend rates		
Increase of 50 basis points	5 596	5 086
Decrease of 50 basis points	5 590	5 075
Mortality assumption		
Setting forward the tables by one year	5 529	4 978
Setting back the tables by one year	5 742	5 184

All sensitivities are calculated using the same actuarial method as for the disclosed present value of the defined benefit obligations at year-end.

10.2i Weighted average duration of defined benefit obligations

At December 31, 2020, the weighted-average duration of the defined benefit obligation was 12.5 years (2019: 12.3 years).

11. Provisions and contingencies

Provisions
Provisions comprise liabilities of uncertain timing or amount that arise from restructuring plans, environmental, litigation, and other risks. Provisions are recognized when a legal or constructive obligation stemming from a past event exists and when the future cash outflows can be reliably estimated. Provisions are measured at the present value of the expenditures unless the impact of discounting is immaterial. Obligations arising from restructuring plans are recognized when detailed formal plans have been established and when there is a valid expectation that such plans will be carried out by either starting to implement them or announcing their main features. Obligations under litigation reflect Management's best estimates of the outcome based on the facts known at the balance sheet date.

Contingent assets and liabilities
Contingent assets and liabilities are possible rights and obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not fully within the control of the NHI Group.

11.1 Provisions

Provisions are as follows:

In millions of Dollars

	Restructuring	Environmental	Legal	Other	**Total**
At December 31, 2019	231	25	12	84	352
Provisions made in the year	20	1	3	7	**31**
Amounts used	(164)	(3)	(2)	(30)	**(199)**
Reversal of unused amounts	(43)	—	(3)	(5)	**(51)**
At December 31, 2020	**44**	**23**	**10**	**56**	**133**
of which expected to be settled within 12 months	42	—	4	28	**75**

Restructuring

Restructuring provisions arise from a number of projects across the NHI Group. These include plans to optimize production, sales, and administration structures. Restructuring provisions are expected to result in future cash outflows when implementing the plans (usually over one to three years).

During 2020, the NHI Group initiated and continued with a number of reorganizations within all of the operating segments to reduce structural costs and to optimize production.

Legal

Legal provisions have been set up to cover legal and administrative proceedings that arise in the ordinary course of the business. They cover numerous separate cases whose detailed disclosure could be detrimental to the NHI Group interests. The NHI Group does not believe that any of these cases will have a material adverse impact on its financial position. The timing of outflows is uncertain as it depends upon the outcome of the cases.

Other

Other provisions are mainly constituted by onerous contracts and various damage claims having occurred during the year but not covered by insurance companies. Onerous contracts result from termination of contracts or supply agreements above market prices in which the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received or for which no benefits are expected to be received.

Environmental

Situations where the NHI Group is found liable for remediation or cleanup efforts by the U.S. environmental Protection Agency ("EPA") or other governmental agencies on specific sites represent known liabilities. In these instances, it is the NHI Group's policy to accrue for environmental cleanup costs when they are assessed. As assessments and cleanups proceed, these liabilities are reviewed and adjusted as additional information becomes available regarding the nature and extent of contamination, methods of remediation required, other actions by governmental agencies or private parties, and the amount, if any, of available coverage by the NHI Group's insurance carriers.

11.2 Contingencies

Litigation

The NHI Group is exposed to a number of asserted claims and unasserted potential claims encountered in the normal course of business. In the opinion of NHI Group management, the resolution of these matters will not have a material impact on the NHI Group's consolidated financial position.

Exposure for environmental matters

The NHI Group has contingent liabilities related to environmental matters where the NHI Group has received "Notices of Potential Liability" from, or has been identified as a "Potentially Responsible Party" by, the EPA or other government agencies regarding the alleged disposal of hazardous material at various sites around the country that allegedly require environmental cleanup.

These proceedings are being vigorously defended or resolutions are being negotiated. Although the outcome of these proceedings is unknown, NHI Group management does not believe that any resulting liability would be material to the consolidated financial position of NHI Group.

12. Financial instruments

Financial assets – Classes and categories
The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The NHI Group classifies financial assets in the following categories:
- measured at amortized cost;
- measured at fair value through the income statement (abbreviated as FVTPL, fair value through profit or loss); and
- measured at fair value through Other comprehensive income (abbreviated as FVOCI).

For an equity investment that is not held for trading, the NHI Group may irrevocably elect to classify it as measured at FVOCI. This election is made at initial recognition on an investment by investment basis.

Financial assets – Recognition and derecognition
The settlement date is used for initial recognition and derecognition of financial assets as these transactions are generally under contracts whose terms require delivery within the time frame established by regulation or convention in the marketplace (regular-way purchase or sale). Financial assets are derecognized when substantially all of the NHI Group's rights to cash flows from the financial assets have expired or have been transferred and the NHI Group has transferred substantially all the risks and rewards of ownership.

Financial assets – Measurement
Financial assets are initially recognized at fair value plus directly attributable transaction costs. However, when a financial asset measured at FVTPL is recognized, the transaction costs are expensed immediately. Subsequent remeasurement of financial assets is determined by their categorization, which is revisited at each reporting date.

Commercial paper and time deposits are held by the NHI Group's treasury unit in a separate portfolio in order to provide interest income and mitigate the credit risk exposure of the NHI Group. The NHI Group considers that these investments are held within a business model whose objective is achieved by collecting contractual cash flows. The contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets have therefore been classified as measured at amortized cost.

Investments in equities, debt funds, equity funds as well as other financial assets not giving rise on specified dates to cash flows that are solely payments of principal and interest are classified at FVTPL. These investments are mainly related to liquidity management and self-insurance activities.

Financial assets – Impairment
The NHI Group assesses whether its financial assets carried at amortized cost and FVOCI are impaired on the basis of expected credit losses (ECL). The analysis requires the identification of significant increases in the credit risk of the counterparties. Considering that the majority of the NHI Group's financial assets are trade receivables, the analysis also integrates statistical data reflecting the past experience of losses incurred due to default, as well as any relevant forward-looking information. See Note 7.1 for impairments related to trade receivables.

The NHI Group measures loss allowances for investments in debt securities and time deposits that are determined to have low credit risk at the reporting date at an amount equal to 12 month expected credit losses.

The NHI Group considers a debt security to have low credit risk when the credit rating is 'investment grade' according to internationally recognized rating agencies. To assess whether there is a significant increase in credit risk since initial recognition, the NHI Group considers available reasonable and supportive information such as changes in the credit rating of the counterparty. If there is a significant increase in credit risk the loss allowance is measured at an amount equal to lifetime expected losses.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls due to a credit default event of the counterparty (i.e. the difference between cash flows in accordance with the contract and the cash flows that the NHI Group expects to receive).

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Impairment losses on other financial assets related to treasury activities are presented under Financial expense.

The model and some of the assumptions used in calculating these ECLs are key sources of estimation uncertainty.

Financial liabilities at amortized cost

Financial liabilities are initially recognized at the fair value, net of transaction costs incurred.

Subsequent to initial measurement, financial liabilities are recognized at amortized cost. The difference between the initial carrying amount of the financial liabilities and their redemption value is recognized in the consolidated income statement over the contractual terms using the effective interest rate method. This category includes the following classes of financial liabilities: trade and other payables; commercial paper; bonds; lease liabilities and other financial liabilities.

Financial liabilities at amortized cost are classified as current or non-current depending whether these will fall due within 12 months after the balance sheet date or beyond.

Financial liabilities are derecognized (in full or partly) when either the NHI Group is discharged from its obligation, they expire, are canceled or replaced by a new liability with substantially modified terms.

12.1 Financial assets and liabilities
12.1a By class and by category

In millions of Dollars

Classes	2020 At amortized cost [a]	2020 At fair value to income statement	2020 At fair value to Other comprehensive income	2020 Total categories	2019 At amortized cost [a]	2019 At fair value to income statement	2019 At fair value to Other comprehensive income	2019 Total categories
Cash at bank and in hand	350	—	—	**350**	323	—	—	**323**
Bonds and debt funds	—	342	—	**342**	—	311	—	**311**
Equity and equity funds	—	337	6	**343**	—	334	—	**334**
Other financial assets	54	613	—	**667**	17	671	—	**688**
Liquid assets [b] and non-current financial assets	404	1 292	6	**1 702**	340	1 316	—	**1 656**
Trade and other receivables	2 275	—	—	**2 275**	1 913	—	—	**1 913**
Loans to parent and affiliates	21 068	—	—	**21 068**	15 721	—	—	**15 721**
Derivative assets [c]	—	75	—	**75**	—	1	—	**1**
Total financial assets	**23 747**	**1 367**	**6**	**25 120**	**17 974**	**1 317**	**—**	**19 291**
Trade and other payables	(3 374)	(313)	—	**(3 687)**	(2 645)	—	—	**(2 645)**
Financial debt	(22 955)	—	—	**(22 955)**	(21 705)	—	—	**(21 705)**
Loans from affiliates	(442)	—	—	**(442)**	—	—	—	**—**
Derivative liabilities [c]	—	(13)	—	**(13)**	—	(309)	—	**(309)**
Total financial liabilities	**(26 771)**	**(326)**	**—**	**(27 097)**	**(24 350)**	**(309)**	**—**	**(24 659)**
Net financial position	**(3 024)**	**1 041**	**6**	**(1 977)**	**(6 376)**	**1 008**	**—**	**(5 368)**
of which at fair value	—	1 041	6	**1 047**	—	1 008	—	**1 008**

(a) Carrying amount of these instruments is a reasonable approximation of their fair value. For bonds included in financial debt, see Note 12.1d.
(b) Liquid assets are composed of cash and cash equivalents and short-term investments.
(c) Include derivatives held in hedge relationships and those that are undesignated (categorized as held-for-trading), see Note 12.2d.

12.1b Fair value hierarchy of financial instruments

The NHI Group classifies the fair value of its financial instruments in the following hierarchy, based on the inputs used in their valuation:

- Level 1: The fair value of financial instruments quoted in active markets is based on their quoted closing price at the balance sheet date. Examples include exchange-traded commodity derivatives and financial assets such as investments in equity and debt securities.
- Level 2: The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques using observable market data. Such valuation techniques include discounted cash flows, standard valuation models based on market parameters for interest rates, yield curves or foreign exchange rates, dealer quotes for similar instruments and use of comparable arm's length transactions. For example, the fair value of forward exchange contracts, currency swaps and interest rate swaps is determined by discounting estimated future cash flows.
- Level 3: The fair value of financial instruments that are measured on the basis of entity specific valuations using inputs that are not based on observable market data (unobservable inputs). When the fair value of unquoted instruments cannot be measured with sufficient-reliability, the NHI Group carries such instruments at cost less impairment, if applicable.

In millions of Dollars	2020	2019
Derivative assets	29	—
Other financial assets	2	3
Derivative liabilities	—	(2)
Prices quoted in active markets (Level 1)	**31**	**1**
Derivative assets	46	1
Bonds and debt funds	342	301
Equity and equity funds	337	238
Investments in life insurance company general accounts	613	586
Other financial assets	—	18
Derivative liabilities	(13)	(307)
Valuation techniques based on observable market data (Level 2)	**1 325**	**837**
Financial assets	4	16
Financial liabilities [(a)]	(313)	—
Valuation techniques based on unobservable input (Level 3)	**(309)**	**16**
Total financial instruments at fair value	**1 047**	**854**

(a) Contingent consideration on acquisition (see Note 2.2 Acquisitions of businesses for description).

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

12.1c Changes in liabilities arising from financing activities

In millions of Dollars

	2020	2019
At January 1	**(21 993)**	**(22 722)**
Changes in fair values of hedging derivatives	(88)	(69)
Changes arising from acquisition and disposal of businesses [(a)]	(210)	29
Increase in lease liabilities	(133)	(181)
Inflows from bonds and other non-current financial debt	(3 976)	(7)
Outflows from bonds and other non-current financial debt	2 080	1 673
Outflows/(inflows) from current financial debt	1 388	(723)
Other	4	7
At December 31	**(22 928)**	**(21 993)**
of which current financial debt	(7 036)	(7 123)
of which non-current financial debt	(15 919)	(14 582)
of which derivatives hedging financial debt	27	(288)

(a) Includes $115 million of financial debt from the contribution of the Vital Protein business, see Note 16.

12.1d Bonds

In millions of Dollars

	Comments	Coupon	Effective interest rate	Years of issue/ maturity	2020	2019
AUD 250		4.25%	4.43%	2014-2020	—	175
NOK 1,000		2.75%	2.85%	2014-2020	—	114
USD 650		2.13%	2.27%	2014-2020	—	650
AUD 175		3.63%	3.77%	2014-2020	—	125
GBP 400		1.75%	1.82%	2015-2020	—	525
GBP 100		1.75%	1.68%	2016-2020	—	132
USD 550		1.88%	2.02%	2016-2021	—	549
USD 650		2.38%	2.50%	2017-2021	—	648
USD 400		1.88%	2.02%	2016-2021	400	—
USD 150		1.88%	2.05%	2016-2021	150	—
USD 600		1.38%	1.52%	2016-2021	600	599
GBP 500	(a)	1.00%	1.17%	2017-2021	682	655
USD 1,000		3.10%	3.17%	2018-2021	1 000	—
USD 650		2.38%	2.50%	2017-2022	649	299
USD 300		2.25%	2.35%	2017-2022	300	796
USD 800		2.38%	2.55%	2017-2022	797	950
EUR 850	(a)	0.88%	0.92%	2017-2025	1 043	568
CHF 550	(a)	0.25%	0.24%	2017-2027	625	155
CHF 150		0.55%	0.54%	2017-2032	170	999
USD 600	(c)	3.13%	3.28%	2018-2021	—	597
USD 550		3.13%	3.28%	2018-2023	548	—
USD 50		3.13%	3.24%	2018-2023	50	—
USD 1,500	(c)	3.35%	3.41%	2018-2023	1 499	1 497
USD 900	(c)	3.50%	3.59%	2018-2025	897	896
USD 1,250	(c)	3.63%	3.72%	2018-2028	1 243	1 241
USD 1,250	(c)	3.90%	4.01%	2018-2038	1 233	1 231
USD 2,100	(c)	4.00%	4.11%	2018-2048	2 062	2 060
USD 1,150	(c)	0.38%	0.49%	2020-2024	1 148	—
USD 750	(c)	0.63%	0.77%	2020-2026	745	—
USD 1,100	(c)	1.00%	1.06%	2020-2027	1 095	—
USD 1,000	(c)	1.25%	1.37%	2020-2030	989	—
Other bonds issued by Nestlé Purina						
PetCare Company:						
USD 63,210		9.30%	6.46%	1991-2021	63	66
USD 78,963		8.63%	6.46%	1992-2022	79	82
USD 43,927		8.13%	6.47%	1993-2023	44	46
USD 51,164		7.88%	6.45%	1995-2025	51	54
Other Bonds					2	2
Total carrying amount [d]					**18 164**	**15 712**
of which due within one year					2 895	1 721
of which due after one year					15 269	13 991
Fair value [d] of bonds, based on prices quoted (level 2)					19 937	16 756

(a) Subject to an interest rate and currency swap that creates a U.S. dollar asset or liability at fixed rates.
(b) Subject to an interest rate and currency swap that creates a U.S. dollar asset or liability at floating rates.
(c) Sold in the United States only to qualified institutional buyers and outside the United States to non-U.S. persons.
(d) Carrying amount and fair value of bonds exclude accrued interest.

Several bonds are hedged by currency and/or interest derivatives. The fair value of these derivatives is shown under derivative assets of $37 million (2019: $0) and under derivative liabilities of $2 million (2019: $285 million).

12.2 Financial risks

In the course of its business, the NHI Group is exposed to a number of financial risks: credit risk, liquidity risk, market risk (including foreign currency risk and interest rate risk, commodity price risk and equity price risk). This note presents the Group's objectives, policies and processes for managing its financial risk and capital.

Financial risk management is an integral part of the way the NHI Group is managed. The Board of Directors determines the financial control principles as well as the principles of financial planning. The Chief Executive Officer organizes, manages, and monitors all financial risks, including asset and liability matters.

A Nestlé S.A. Asset and Liability Management Committee ("ALMC"), under the supervision of the Chief Financial Officer of Nestlé S.A., is the governing body for the establishment and subsequent execution of Nestlé S.A.'s Financial Asset and Liability Management Policy, to which NHI is subject. It ensures implementation of strategies and achievement of objectives of Nestlé S.A.'s Financial Asset and Liabilities Management Policy, which are executed by the Centre Treasury, the Regional Treasury Centres, and in specific local circumstances, by the subsidiaries. Approved Treasury Management Guidelines define and classify risks as well as determine, by category of transaction, specific approval, execution, and monitoring procedures. The activities of the Centre Treasury and of the Regional Treasury Centres are monitored by an independent Middle Office, which verifies the compliance of the strategies and/or operations with the approved guidelines and decisions taken by the ALMC.

12.2a Credit risk

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the NHI Group. Credit risk arises on financial assets (liquid, non-current and derivative) and on trade and other receivables.

The NHI Group aims to minimize the credit risk of liquid assets, non-current financial assets and derivative assets through the application of risk management policies. Credit limits are set based on each counterparty's size and risk of default. The methodology used to set the credit limit considers the counterparty's balance sheet, credit ratings, risk ratios and default probabilities. Counterparties are monitored regularly, taking into consideration the evolution of the above parameters, as well as their share prices and credit default swaps. As a result of this review, changes on credit limits and risk allocation are carried out. The NHI Group avoids the concentration of credit risk on its liquid assets by spreading them over several institutions and sectors.

Trade receivables are subject to credit limits, control, and approval procedures in all the subsidiaries. Due to its large number of customers, the NHI Group is not exposed to material concentrations of credit risk on its trade receivables (see Note 7.1). Nevertheless, commercial counterparties are constantly monitored following the similar methodology used for financial counterparties.

The maximum exposure to credit risk resulting from financial activities, without considering netting agreements and without taking into account any collateral held or other credit enhancements, is equal to the carrying amount of the NHI Group's financial assets.

Credit rating of financial assets

This includes liquid assets, non-current financial assets and derivative assets. The credit risk of the financial assets is assessed based on the risk of the counterparties including the associated country risk. The NHI Group uses an internationally recognized credit scale to present the information. The NHI Group deals mainly with financial institutions located in Switzerland, the European Union, and North America.

In millions of Dollars	2020	2019
Investment grade (A- and above)	1 270	1 149
Investment grade (BBB+, BBB and BBB-)	80	45
Non-investment grade (BB+ and below)	16	30
Not rated [(a)]	411	373
Total financial assets (excluding receivables and inter-group loans)	**1 777**	**1 597**

(a) Mainly equity securities and other investments for which no credit rating is available.

12.2b Liquidity risk

Liquidity risk management

Liquidity risk is the risk that a company may encounter difficulties in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. Such risk may result from inadequate market depth or disruption or refinancing problems. The NHI Group's objective is to manage this risk by limiting exposures in financial instruments that may be affected by liquidity problems and by maintaining sufficient back-up facilities.

Contractual maturities of financial liabilities and derivatives (including interest)

In millions of Dollars

						2020
	1st year	2nd year	3rd to 5th year	After the 5th year	Contractual amount	Carrying amount
Trade and other payables	3 050	173	464	—	3 687	3 687
Loan from affiliates	442	—	—	—	442	442
Commercial paper	3 713	—	—	—	3 713	3 711
Bonds	3 332	2 204	6 127	11 045	22 708	18 164
Lease liabilities	115	139	247	305	806	783
Other financial debt	297	—	—	—	297	297
Total financial debt	**7 457**	**2 343**	**6 374**	**11 350**	**27 524**	**22 955**
Financial liabilities (excluding derivatives)	**10 949**	**2 516**	**6 838**	**11 350**	**31 653**	**27 084**
Non-currency derivative assets	35	1	—	—	36	36
Non-currency derivative liabilities	(11)	—	—	—	(11)	(11)
Gross amount receivable from currency derivatives	765	12	1 081	805	2 663	2 719
Gross amount payable from currency derivatives	(785)	(50)	(1 121)	(791)	(2 747)	(2 682)
Net derivatives	**4**	**(37)**	**(40)**	**14**	**(59)**	**62**
of which derivatives under cash flow hedges	25	2	—	—	27	27

						2019
	1st year	2nd year	3rd to 5th year	After the 5th year	Contractual amount	Carrying amount
Trade and other payables	2 645	—	—	—	2 645	2 645
Loan from affiliates	79	—	—	—	79	79
Commercial paper	5 063	—	—	—	5 063	5 050
Bonds	2 165	3 274	4 834	10 161	20 434	15 712
Lease liabilities	118	116	268	336	839	722
Other financial debt	219	—	—	—	219	219
Other financial liabilities	—	—	—	3	3	3
Total financial debt	**7 565**	**3 390**	**5 102**	**10 500**	**26 557**	**21 705**
Financial liabilities (excluding derivatives)	**10 289**	**3 390**	**5 102**	**10 500**	**29 281**	**24 429**
Non-currency derivative assets	1	—	—	—	1	—
Non-currency derivative liabilities	(18)	(5)	—	—	(23)	(23)
Gross amount receivable from currency derivatives	726	674	32	1 695	3 127	2 997
Gross amount payable from currency derivatives	(877)	(723)	(151)	(1 811)	(3 562)	(3 282)
Net derivatives	**(168)**	**(55)**	**(119)**	**(116)**	**(458)**	**(308)**
of which derivatives under cash flow hedges	(163)	(55)	(119)	(116)	(453)	(170)

12.2c Market risk

The NHI Group is exposed to risk from movements in foreign currency exchange rates, interest rates and market prices that affect its assets, liabilities and future transactions.

Foreign currency risk

The NHI Group is exposed to foreign currency risk from transactions. Transactional exposures arise from transactions in foreign currency. They are managed within a prudent and systematic hedging policy in accordance with the NHI Group's specific business requirements through the use of currency forwards, swaps and options.

Value at Risk (VaR) based on historic data for a 250-day period and a confidence level of 95% results in a non significant potential one-day loss in 2020 and 2019.

Interest rate risk

Interest rate risk on financial debt is managed based on duration and interest management targets set by the ALMC through the use of fixed rate debt and interest rate swaps.

Taking into account the impact of interest derivatives, the proportion of financial debt subject to fixed interest rates for a period longer than one year represents 69% (2019: 71%).

Price risk

Commodity price risk

Commodity price risk arises from transactions on the world commodity markets for securing the supplies of green coffee, cocoa beans, cereals and grains and other commodities necessary for the manufacture of some of the NHI Group's products.

The NHI Group's objective is to minimize the impact of commodity price fluctuations and this exposure is hedged in accordance with the Nestlé Group policy on commodity price risk management. The Global Procurement Organization is responsible for managing commodity price risk based on internal directives and centrally determined limits, generally using exchange-traded commodity derivatives. The commodity price risk exposure of future purchases is managed using a combination of derivatives (mainly futures and options) and executory contracts. This activity is monitored by an independent Middle Office. Given the short product business cycle of the NHI Group, the majority of the anticipated future raw material transactions outstanding at the balance sheet date are expected to occur in the next year.

Equity price risk

The NHI Group is exposed to equity price risk on investments. To manage the price risk arising from these investments, the NHI Group diversifies its portfolios in accordance with the guidelines set by the Board of Directors of Nestlé S.A.

12.2d Derivative assets and liabilities and hedge accounting

Derivative financial instruments

The NHI Group's derivatives mainly consist of currency forwards, options and swaps; commodity futures and options and interest rate swaps. Derivatives are mainly used to manage exposures to foreign exchange, interest rate and commodity price risk as described in section 12.2c Market risk.

Derivatives are initially recognized at fair value. They are subsequently remeasured at fair value on a regular basis and at each reporting date at a minimum, with all their gains and losses, realized and unrealized, recognized in the consolidated income statement unless they are in a qualifying hedging relationship.

Hedge accounting

The NHI Group designates and documents the use of certain derivatives and other financial assets or financial liabilities as hedging instruments against changes in fair values of recognized assets and liabilities (fair value hedges) and highly probable forecast transactions (cash flow hedges). The effectiveness of such hedges is assessed at inception and verified at regular intervals and at least on a quarterly basis to ensure that an economic relationship exists between the hedged item and hedging instrument.

The NHI Group excludes from the designation of the hedging relationship the hedging cost element. Subsequently, this cost element impacts the consolidated income statement at the same time as the underlying hedged item.

For the designation of hedging relationships on commodities, the NHI Group applies the component hedging model when the hedged item is separately identifiable and measurable in the contract to purchase the materials.

Fair value hedges

The NHI Group uses fair value hedges to mitigate foreign currency and interest rate risks of its recognized assets and liabilities, being mostly financial debt.

Changes in fair values of hedging instruments designated as fair value hedges and the adjustments for the risks being hedged in the carrying amounts of the underlying transactions are recognized in the consolidated income statement.

Cash flow hedges

The NHI Group uses cash flow hedges to mitigate a particular risk associated with a recognized asset or liability or highly probable forecast transactions, such as anticipated future export sales, purchases of equipment, and goods, as well as the variability of expected interest payments and receipts.

The effective part of the changes in fair value of hedging instruments is recognized in other comprehensive income, while any ineffective part is recognized immediately in the consolidated income statement. Ineffectiveness for hedges of foreign currency and commodity price risk may result from changes in the timing of the forecast transactions than was originally foreseen. When the hedged item results in the recognition of a non-financial asset or liability, including acquired businesses, the gains or losses previously recognized in other comprehensive income are included in the measurement of the cost of the asset or the liability. Otherwise the gains or losses previously recognized in other comprehensive income are recognized in the consolidated income statement at the same time as the hedge transaction.

Undesignated derivatives

Derivatives which are not designated in a hedging relationship are classified as undesignated derivatives. They are acquired in the frame of approved risk management policies.

Derivatives by hedged risks

In millions of Dollars

	2020			2019		
	Fair value assets	Fair value liabilities	Contractual or notional amounts	Fair value assets	Fair value liabilities	Contractual or notional amounts
Fair value hedges:						
Foreign currency and interest rate risk on net financial debt	—	—	—	—	138	543
Cash flow hedges:						
Currency risk on future purchases or sales	—	—	—	1	—	1 446
Foreign currency and interest rate risk on net financial debt	39	11	3 088	—	163	3 757
Commodity price risk on future purchases	36	—	206	—	8	184
Undesignated derivatives	—	2	—	—	—	
Total derivatives	**75**	**13**	**3 294**	**1**	**309**	**5 930**
Balance after conditional offset	**75**	**13**	**3 294**	**1**	**309**	

A description of the types of hedging instruments by risk category is included in Note 12.2c Market risk.

The majority of hedge relationships are established to ensure a hedge ratio of 1:1.

Impact on the consolidated income statement of fair value and cash flow hedges

The majority of fair value hedges are related to financing activities and are presented in Net financing cost. Ineffective portion of gains/(losses) of fair value and cash flow hedges is not significant.

12.2e Capital risk management

The NHI Group's capital risk management strategy is to maintain a sound capital base to support the continued development of the NHI Group's operations, utilizing various funding sources available to it. Substantially all of the NHI Group's debt is guaranteed by Nestlé S.A., which allows the NHI Group to borrow from third parties at lower interest rates. In order to ensure that the return on invested capital is optimized, the NHI Group establishes strict limits on annual additions of property, plant and equipment.

13. Taxes

The NHI Group files a consolidated return with Nestlé US Holdco Inc. However, the NHI Group also records its own tax expense and liability as if it filed on a standalone basis. Taxes and fiscal risks recognized in the consolidated financial statements reflect NHI Group management's best estimate of the outcome based on the facts known at the balance sheet date. These facts may include, but are not limited to, changes in tax laws and interpretations thereof in the United States. They may have an impact on the income tax as well as the resulting assets and liabilities. Any differences between tax estimates and final tax assessments are charged to the consolidated income statement in the period in which they are incurred, unless anticipated.

Taxes include current and deferred taxes on profit and tax adjustments relating to prior years. Income tax is recognized in the consolidated income statement, except to the extent that it relates to items directly taken to equity or other comprehensive income, in which case it is recognized against equity or other comprehensive income.

Deferred taxes are based on the temporary differences that arise when taxation authorities recognize and measure assets and liabilities with rules that differ from the principles of the Consolidated Financial Statements. They also arises on temporary differences stemming from tax losses carried forward.

Deferred taxes are calculated under the liability method at the rates of tax expected to prevail when the temporary differences reverse subject to such rates being substantially enacted at the balance sheet date. Any changes of tax rates are recognized in the consolidated income statement unless related to items directly recognized against equity or other comprehensive income. Deferred tax liabilities are recognized on all taxable temporary differences excluding non-deductible goodwill. Deferred tax assets are recognized on all deductible temporary differences provided that it is probable that future taxable income will be available.

13.1 Components of taxes recognized in the consolidated income statement

In millions of Dollars	2020	2019
Current taxes	(571)	(469)
Deferred taxes	(262)	41
Taxes reclassified to equity	—	15
Income tax (expense)	**(833)**	**(413)**

13.2 Reconciliation of taxes recognized in the consolidated income statement

In millions of Dollars	2020	2019
Tax at theoretical rate	(1 005)	(356)
Tax effect on non-deductible amortization and impairment of goodwill and other intangible assets	(2)	—
Permanent differences on company-owned life insurance policies	25	30
Tax effect of non-deductible or non-taxable items	(139)	2
Prior years' taxes	294	(77)
Other taxes	(6)	(12)
Income tax (expense)	**(833)**	**(413)**

The components of deferred tax (expense)/benefit by type are as follows:

In millions of Dollars	2020	2019
Tangible fixed assets	(52)	(66)
Goodwill and other intangible assets	30	(120)
Employee benefits	37	24
Inventories, receivables, payables, accruals, and provisions	(50)	(6)
Financial instruments	(4)	18
Net operating losses	(40)	8
Other	(183)	183
Deferred tax (expense)/benefit	**(262)**	**41**

Taxes recognized in other comprehensive income/(loss):

In millions of Dollars	2020	2019
Tax effect relating to:		
Fair value adjustments on cash flow hedges	9	17
Defined benefit plan actuarial losses	58	(31)
Total taxes recognized	**67**	**(15)**

13.3 Reconciliation of deferred taxes by type of temporary differences recognized on the balance sheet

Deferred tax assets by types of temporary differences are as follows:

In millions of Dollars	2020	2019
Employee benefits	500	404
Inventories, receivables, payables, accruals, and provisions	152	181
Financial instruments	16	11
Net operating losses	7	12
Others	—	191
Total deferred tax assets	**675**	**799**

Deferred tax liabilities by types of temporary differences are as follows:

In millions of Dollars	2020	2019
Tangible fixed assets	615	538
Goodwill and other intangible assets	865	747
Others	10	—
Total deferred tax liabilities	**1 490**	**1 285**

Deferred tax is presented as a net deferred tax liability in the 2020 consolidated balance sheet at an amount of $815 million.

13.4 Unrecognized deferred taxes

At December 31, 2020 and 2019, deferred taxes were recognized for all temporary differences, unless an exception from the general principal applied. Following the sale of the Ice Cream business on January 31, 2020 there are no longer any unrecognized deferred tax assets.
At December 31, 2019, these unrecognized deferred tax assets totaled $6 million.

14. Associates

Associates are companies where the NHI Group has the power to exercise a significant influence but does not exercise control. Significant influence may be obtained when the NHI Group has 20% or more of the voting rights in the investee or has obtained a seat on the Board of Directors or otherwise participates in the policy-making process of the investee.

Associates are accounted for using the equity method. The net assets and results are adjusted to comply with the NHI Group's accounting policies. The carrying amount of goodwill arising from the acquisition of associates is included in the carrying amount of investments in associates.

In % and in millions of Dollars

	Ownership interest		Net book value	
	2020	2019	2020	2019
Freshly, Inc.	—	16%	—	25
TE Taygete Energy Holdco LLC	48%	—	17	—
Total investments in joint ventures and associated companies	**—**		**17**	**25**

In October 2020, the NHI Group acquired a majority interest in Freshly Inc., (see Note 2.2) which resulted in a revaluation gain of $194 million on its existing ownership held at the time of acquisition. In December 2020, the NHI Group acquired an interest of 48% in TE Taygete Energy Holdco LLC, which is a renewable energy project in the US.

15. Cash flow statement

15.1 Operating profit

In millions of Dollars	2020	2019
Profit for the year	3 285	1 000
(Income)/loss from associates	(194)	14
Taxes	833	413
Financial income	(499)	(546)
Financial expense	667	800
	4 092	**1 681**

15.2 Non-cash items of income and expense

In millions of Dollars	2020	2019
Depreciation of property, plant and equipment	639	674
Impairment of property, plant and equipment	16	200
Amortization of intangible assets	59	58
Impairment of intangible assets	—	23
Net result on disposal of businesses	(1 943)	5
Net result on disposal of assets	(106)	(8)
Non-cash items in financial assets and liabilities	18	(117)
	(1 317)	**835**

15.3 Decrease/(increase) in working capital

In millions of Dollars	2020	2019
Inventories	(548)	(324)
Trade and other receivables	56	(379)
Prepayments and accrued income	15	(35)
Trade and other payables	35	728
Accruals and deferred income	180	97
	(262)	**87**

15.4 Variation of other operating assets and liabilities

In millions of Dollars	2020	2019
Variation of employee benefits and liabilities	(9)	152
Variation of provisions	(207)	20
Other	(6)	9
	(222)	**181**

15.5 Cash and cash equivalents at end of year

Cash and cash equivalents include cash at bank and in hand and other short-term highly liquid investments with maturities of three months or less from the initial recognition.

16. Transactions with related parties

Compensation of key management personnel
Key management personnel comprise five high-ranking officers in each of the following subsidiaries: Nestlé USA, Inc., Nestlé Purina PetCare Company, and Gerber Products Company. These officers hold the positions of Chief Executive Officer, Chief Financial Officer, Head of Human Resources, General Counsel, and Head of Sales or Sales/Marketing. The Chief Executive Officer and the Chief Financial Officer of Nestlé USA, Inc. are directors of NHI. There is one non-executive director.

The compensation paid or payable to key Company management for employee services is shown below:

In millions of Dollars

	2020	2019
Salaries and other short-term employee benefits	14	13
Share-based payments	11	10
Post-employment benefits	1	1
Total compensation	**27**	**24**

Loans with related parties

In millions of Dollars

	2020	2019
Loans to NIMCO US, Inc. (Parent) and NUSHI (NIMCO Parent):		
At January 1	12 502	12 097
Loans granted during year	2 461	405
At December 31	**14 963**	**12 502**
Loans to affiliates:		
At January 1	3 219	2 560
Loans granted during year	3 165	956
Loan repayments	(279)	(297)
At December 31	**6 105**	**3 219**
Total loans to parent, NIMCO and affiliates	**21 068**	**15 721**
Of which current	19 844	15 457
Of which non-current	1 224	264
Loans from affiliates:		
At January 1	79	—
Loans received during year	364	79
Loan repayments	(1)	—
Total loans from affiliates at December 31	**442**	**79**
Of which current	442	79

Transactions under common control
Vital Proteins, a collagen brand and a lifestyle and wellness platform business was acquired by the Nestlé Group and contributed to the NHI Group by NIMCO (Parent of NHI), in September 2020, resulting in an increase of $21 million to additional paid in capital and included $115 million of financial debt. The Nestlé Group contributed $60 million of equity in Honey Holdings LLC (Freshly) to the NHI Group resulting in an increase to additional paid in capital of $60 million. The International Premium Waters business, IPW, was transferred on December 31, 2020 at book value from Nestlé Waters North America, a Nestlé affiliated company, to the NHI Group mainly consisting of $130 million of inventory and $38 million of leased assets and associated lease liabilities.

On November 30, 2020, the NHI Group sold the Freshly trademark to a Nestlé Group affiliate for its fair value of $593 million, in consideration thereof, the NHI Group has a loan due from the Nestlé Group affiliate for $593 million.

Royalties to Nestlé Group
The NHI Group and its subsidiaries are granted use in the United States of licensed brands and obtain technical assistance from a Nestlé Group affiliated company via a general license agreement. In 2020 the NHI Group incurred royalties of $2524 million to the Nestlé Group (2019: $2481 million).

17. 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 Consolidated Financial Statements, specifically considering the impacts on key judgements and significant estimates as detailed in Note 1. The NHI Group will continue to monitor these areas of increased risk for material changes.

17.1 Liquidity and financing
The NHI Group had sufficient liquidity and access to committed credit facilities to meet all short-term financial obligations.

Counterparty risk continues to be actively managed, in line with the NHI Group's normal risk management approach as described in note 12a.

17.2 Impairment of Goodwill, intangible assets and property, plant and equipment
Impairment tests have been performed using forecasted cash flows which take into account the foreseeable impacts of the COVID-19 related measures and economic outlook. This particularly relates to scenarios where out-of-home and on-the-go consumption does not return to former levels in a sustained manner and where government agencies periodically reimpose physical and social distancing measures. This impacts notably our businesses in out

of-home channels. Following this review, there were no significant impairments recorded in the consolidated income statement.

17.3 Working capital and supply chain
During 2020 the NHI Group has increased the levels of raw and packaging material inventories to ensure that production and sales continued despite potential disruptions.

Customer receivables balances are reviewed closely and changes in creditworthiness, including those related to COVID-19, are integrated into the assessment of credit risk and expected credit losses. Forward-looking information about the expected economic effects of the pandemic have been considered. Following this review, there was no significant increase in the allowance for bad debts in the Consolidated Balance Sheet.

18. Events after the balance sheet date

On March 5th, 2021, Nestlé USA acquired 100% of the equity of Essentia Water ("Essentia"), a premium functional water brand headquartered in Bothell, Washington. Essentia pioneered ionized alkaline water more than twenty years ago and is the leading brand in that space in the U.S. This transaction is part of the Nestlé Group's continued transformation of its global water business, which was announced in June 2020. Consequently, the NHI Group is reshaping its portfolio to focus on international premium and mineral water brands and healthy hydration products, such as functional water. Given the business was only recently acquired, the initial accounting for the business combination is incomplete at the time these financial statements are authorized for issue. Consequently, the major classes of assets acquired and liabilities assumed at the acquisition date are still to be determined.

The Company was not aware of any other specific events or transactions occurring after December 31, 2020 and up to April 23, 2021, that could have a material impact on the presentation of the accompanying consolidated financial statements.