



Good Food, Good Life

NESTLÉ FINANCE INTERNATIONAL LTD.

(Société Anonyme)

Half-Yearly Financial Report

Management Report

and

Condensed Interim Financial Statements

1 January-30 June 2021

(Unaudited)

**Registered Address: 7, rue Nicolas Bové
L-1253, Luxembourg
Grand Duchy of Luxembourg
R.C.S. No B136737
Subscribed capital: EUR 440 000**

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Nestlé Finance International Ltd.

Nestlé Finance International Ltd. (“NFI” or the “Company”) presents its half-yearly financial report for the six-month period ended 30 June 2021. NFI is a public limited company (*société anonyme*) organised under the laws of Luxembourg and is a wholly-owned subsidiary of Nestlé S.A. which is the holding company of the Nestlé Group of companies (the “Nestlé Group” or the “Group”). NFI is established for an unlimited duration. The Nestlé Group manufactures and sells food and beverages, as well as products related to the nutrition, health and wellness industries. The Nestlé Group product portfolio has seven product categories, distributed throughout the world: powdered and liquid beverages, nutrition and health science, milk products and ice cream, prepared dishes and cooking aids, pet care, confectionery and water.

The principal business activity of NFI is the financing of members of the Nestlé Group including by the sale, exchange, issue, transfer or otherwise, as well as the acquisition by purchase, subscription or in any other manner, of stock, bonds, debentures, notes, debt instruments or other securities or any kind of instrument and contracts thereon or relative thereto. NFI may further assist the members of the Nestlé Group, in particular by granting them loans, facilities or guarantees in any form and for any term whatsoever and provide any of them with advice and assistance in any form whatsoever.

Management Report

(A) Important events that have occurred during the six-month period January–June 2021, and their impact on the financial statements:

At 30 June 2021, a total equivalent of EUR 18 779 million of loans and advances granted to Nestlé Group companies was outstanding compared to EUR 11 858 million as at 31 December 2020. These were financed mainly through the issuance of bonds, commercial paper and loans and advances received from Nestlé Group companies. Other assets and liabilities comprise mainly derivatives, cash and cash equivalents (consisting of, for example, cash balances and deposits at banks with original maturities of three months or less). The aforementioned transactions are further detailed in the Notes to the Unaudited Financial Statements of NFI for the six-month period ended 30 June 2021.

Total assets increased at the end of six-month period January-June 2021 (EUR 18 977 million) as compared to the financial year ended 31 December 2020 (EUR 13 692 million). The increase in total assets (by EUR 5 285 million) results mainly from an increase in loans and advances granted to Nestlé Group companies (by EUR 6 921 million), and from a decrease in short term investments (by EUR 1 426 million). Debt securities (bonds and commercial paper) outstanding at the end of the six-month period January-June 2021 (EUR 15 215 million) increased by EUR 3 400 million as compared to the financial year ended 31 December 2020 (EUR 11 815 million) as a result of an increase in the issuance of bonds. Loans and advances received from Nestlé Group companies outstanding at 30 June 2021 (EUR 3 450 million) increased by EUR 1 673 million as compared to 31 December 2020 (EUR 1 777 million).

Financing operations reported a net loss of EUR 32.2 million for the six-month period January-June 2021, compared to a net loss of EUR 3.3 million for the six-month period January-June 2020.

Net loss before tax for the six-month period January-June 2021 was EUR 39.3 million compared to a net profit of EUR 0.05 million for the six-month period January-June 2020. There was an decrease of EUR 575 million in net fee and commission income from Nestlé Group companies arising from fluctuations of foreign exchange rates borne by a related party, an increase of EUR 560 million in other operating expense / income resulting from foreign exchange gains on non-EUR denominated instruments and a decrease in net interest income (of EUR 24.1 million). This has been further disclosed in the Notes to the Unaudited Financial Statements of NFI for the six-month period ended 30 June 2021, in particular, in Note 2.

NFI's net operating cash outflow was EUR -3 356 million for the six-month period January-June 2021 compared to net operating cash outflow of EUR -3 409 million for the six-month period January-June 2020.

Future financial performance will depend largely on the net interest margin earned on loans and investments, funded by existing and possible further issues of bonds, commercial paper and loans and advances received from Nestlé Group companies and results from derivative transactions.

(B) Principal Risks and Uncertainties for the remaining six-month period July–December 2021

NFI is exposed to certain risks and uncertainties: banking credit risk, credit risk, market risk (including currency fluctuations and interest rate movements), liquidity risk, risk of an increase in cost of capital, treasury operations and other risks that could have a material adverse impact on its financial condition and operating results. NFI's principal risks and uncertainties for the remaining six months of the financial year have not changed since the issuance of NFI's 2020 Annual Financial Report. The detailed discussion of these risks and uncertainties and NFI's objectives, policies and processes for managing these risks and uncertainties were disclosed in the Notes to the Audited Financial Statements of NFI for the year ended 31 December 2020, in particular Note 10.

(C) Other items

NFI has no research and development costs nor any treasury shares or branches.

(D) Corporate governance status

The overall control environment, risk assessment, control and monitoring activities have been disclosed in the Audited Financial Statements of NFI for the year ended 31 December 2020.

Nestlé Finance International Ltd. (“NFI”)

(Société Anonyme)

Financial Statements
(Unaudited)

1 January–30 June 2021

Balance sheet as at 30 June 2021

In thousands of Euro	Notes	30 June 2021	31 December 2020
Assets			
Current assets			
Cash and cash equivalents		122 081	125 508
Short term investments		-	1 426 256
Derivative assets	(3)	34 016	45 048
Loans and advances to Nestlé Group companies	(7)	12 854 731	10 370 595
Current tax assets		1 766	2 581
Other assets		769	206 176
Total current assets		13 013 363	12 176 164
Non-current assets			
Loans and advances to Nestlé Group companies	(7)	5 924 395	1 487 259
Deferred tax assets		38 950	28 244
Total non-current assets		5 963 345	1 515 503
Total assets		18 976 708	13 691 667
Liabilities			
Current liabilities			
Derivative liabilities	(3)	291	10 178
Loans and advances from Nestlé Group companies	(7)	3 449 742	1 776 749
Debt securities issued	(6)	2 319 457	2 061 148
Other liabilities		296 940	43 284
Total current liabilities		6 066 430	3 891 359
Non-current liabilities			
Debt securities issued	(6)	12 895 585	9 753 377
Total non-current liabilities		12 895 585	9 753 377
Total liabilities		18 962 015	13 644 736
Equity			
Share capital	(4)	440	440
Share premium and other premiums		102 000	102 000
Hedging reserve	(4)	35	52
Legal reserve	(4)	44	44
Other reserve	(4)	4 955	4 955
Accumulated losses		-92 781	-60 560
Total equity attributable to shareholders of the company		14 693	46 931
Total liabilities and equity		18 976 708	13 691 667

Income statement for the six-month period ended 30 June 2021

In thousands of Euro	Notes	January-June 2021	January-June 2020
Interest income		68 781	89 464
Interest expense		-47 126	-43 710
Net interest income	(2)	21 654	45 754
Fee and commission income		-	375 961
Fee and commission expense		-241 588	-42 219
Net fee and commission expense from Nestlé Group companies	(2)	-241 588	333 742
Other operating income / (expense)	(2)	181 304	-378 816
Operating profit / (loss)		-38 630	680
Administration expense		- 649	- 632
Profit / (loss) before tax		-39 279	48
Taxes	(2)	7 058	-3 393
Profit / (loss) for the year attributable to shareholders of the company		-32 221	-3 345

Other comprehensive income for the six-month period ended 30 June 2021

In thousands of Euro	January-June 2021	January-June 2020
Profit / (Loss) for the year recognised in the income statement	-32 221	-3 345
Adjustments on cost of hedge reserve		
Recognised in hedging reserve, net of taxes	-17	-69
Items that are or may be reclassified subsequently to the income statement	-17	-69
Other Comprehensive income / (Loss) for the year	-17	-69
Total comprehensive income / (Loss) for the year	-32 238	-3 414
attributable to shareholders of the company	-32 238	-3 414

Statement of changes in equity for the six-month period ended 30 June 2021

In thousands of Euro	Share capital	Share premium and other premiums	Hedging reserve	Legal reserve	Other reserve	Retained earnings	Total equity attributable to shareholders of the company
Equity as at 31 December 2019	440	102 000	477	44	4 955	-14 323	93 593
Gains and losses							
Loss for the period	-	-	-	-	-	-3 345	-3 345
Adjustments on cost of hedge reserve	-	-	-69	-	-	-	-69
Total comprehensive income for the period	-	-	-69	-	-	-3 345	-3 414
Equity as at 30 June 2020	440	102 000	408	44	4 955	-17 668	90 179
Equity as at 31 December 2020	440	102 000	52	44	4 955	-60 560	46 931
Gains and losses							
Loss for the period	-	-	-	-	-	-32 221	-32 221
Adjustments on cost of hedge reserve	-	-	-17	-	-	-	-17
Total comprehensive income for the period	-	-	-17	-	-	-32 221	-32 238
Equity as at 30 June 2021	440	102 000	35	44	4 955	-92 781	14 693

Cash flow statement for the six-month period ended 30 June 2021

In thousands of Euro	January-June 2021	**Restated January-June 2020
Cash flows from operating activities:		
(Loss) / Profit before taxation for the period	-39 279	48
Adjustments for:		
Foreign exchange gain / loss for bank accounts, loans, debt securities and derivatives	-160 551	417 980
Fair value of debt securities	-9 732	6 700
Interest income	-68 781	-89 464
Interest expense	47 126	63 566
Change in other assets excluding prepaid and accrued income	205 407	-335 203
Change in other liabilities excluding accrual and deferred income	238 771	-280 032
Change in short term investments including those recognised directly in equity	1 426 256	-
Net loans and advances to Nestlé Group companies excluding intra group interest receivable	-6 679 286	-3 125 679
Net loans and advances from Nestlé Group companies excluding intra group interest payable	1 645 614	-137 453
Interest received net of withholding tax	64 572	86 379
Interest paid	-26 844	-15 339
Income taxes received / paid	814	-846
Net cash used in operating activities	-3 355 913	-3 409 343
Financing activities		
Change in derivative assets including those recognised directly in equity	11 015	-13 112
Change in derivative liabilities	-9 887	-9 271
Bonds issued	3 126 586	4 449 188
Commercial paper issued	15 057 066	18 417 065
Bonds repaid	-	-500 000
Commercial paper repaid	-14 828 445	-19 022 977
Net cash from financing activities	3 356 335	3 320 893
Effects of the exchange rate changes on cash	-3 849	616
Net decrease in cash and cash equivalents	-3 427	-87 834
Net cash and cash equivalents at beginning of year	125 508	279 046
Net cash and cash equivalents at end of the period *	<u>122 081</u>	<u>191 212</u>

*Net cash and cash equivalents include bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

** Comparative information is restated to conform with current period presentation, Change in derivative assets including those recognised directly in equity, change in derivative liabilities, bonds issued, commercial paper issued, bonds repaid and commercial paper repaid have been moved under financing activities from cash flows from operating activities.

Notes

1. Accounting policies

Basis of preparation

These financial statements are the Unaudited Condensed Interim Financial Statements of NFI for the six-month period ended 30 June 2021. They have been prepared in accordance with IAS 34 – Condensed Interim Financial Reporting as adopted by the European Union as well as with the laws and regulations in force in the Grand Duchy of Luxembourg and should be read in conjunction with the Audited Financial Statements of NFI for the year ended 31 December 2020.

The accounting conventions and accounting standards are the same as those applied in the Audited Financial Statements of NFI for the year ended 31 December 2020, except for those mentioned below, in the sections 'Changes in accounting standards'. The preparation of the Unaudited Condensed Interim Financial Statements of NFI for the six-month period ended 30 June 2021 requires NFI's management to exercise judgment and to make estimates and assumptions that affect the application of policies, reported amounts of revenues, expenses, assets and liabilities and disclosures. The key sources of estimation of uncertainty within the Unaudited Financial Statements of NFI for the six-month period 30 June 2021 remain the same as those that applied to the Audited Financial Statements of NFI for the year ended 31 December 2020.

NFI is included in the consolidated financial statements of Nestlé S.A., Avenue Nestlé 55, 1800 Vevey, Switzerland.

Changes in accounting standards

A number of other accounting standards have been modified on miscellaneous points with effect from 1 January 2021. These include Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). None of these amendments had a material effect on the Unaudited Condensed Interim Financial Statements of NFI for the six-month period ended 30 June 2021.

2. Operating income/(expense) and taxes

Net interest income:

In thousands of Euro	January-June 2021	January-June 2020
Interest income from:		
Cash and cash equivalents	-	-30
Loans and advances to Nestlé Group companies	68 781	89 494
Interest income	68 781	89 464
Interest expense from:		
Cash and cash equivalents	-61	-
Loans and advances from Nestlé Group companies	-617	-4 539
Debt securities issued	-46 448	-39 171
Interest expense	-47 126	-43 710
Net interest income	21 655	45 754

Net fees and commission income

In thousands of Euro	January-June 2021	January-June 2020
Fee and commission income from Nestlé Group companies	-	375 961
Fee and commission expense to Nestlé Group companies	-241 588	-42 219
Net fee and commission income	-241 588	333 742

Other operating expense:

In thousands of Euro	January-June 2021	January-June 2020
Net foreign exchange gain / (expense)	181 575	-378 545
Net gain / (loss) in fair value through income statement	-271	-271
Other operating income / (expense)	181 304	-378 816

Taxes:

In thousands of Euro	January-June 2021	January-June 2020
Withholding tax on interest received	-3 648	-4 505
Deferred tax (decrease) / increase	10 706	1 112
Total tax (expense) / gain	7 058	-3 393

3. Fair value hierarchy

Financial assets and liabilities

Fair value hierarchy of financial instruments

In thousands of Euro	30 June 2021	31 December 2020
Short term investments	-	1 426 256
Prices quotes in active markets (Level 1)	-	1 426 256
Derivative assets	34 016	45 048
Derivative liabilities	-291	-10 178
Valuation techniques based on observable market data (Level 2)	33 725	34 870
Valuation techniques based on unobservable input (Level 3)	-	-
Total financial instruments at fair value	33 725	1 461 126

As of 30 June 2021, the carrying amount of bonds issued is EUR 13 895 million (31 December 2020: EUR 10 752 million). compared to a fair value of EUR 14 345 million (31 December 2020: EUR 11 445 million). This fair value is categorized as level 2, measured on the basis of quoted prices.

For all other financial assets and liabilities, the carrying amount is a reasonable approximation of the fair value.

There have been no significant transfers between the different hierarchy levels during the six-month period ended 30 June 2021. There were no financial instruments within the category Level 3 (valuation techniques based on unobservable input). All financial instruments are within Level 2 category, except short term investments which are Level 1 (prices quoted in active markets).

4. Share capital, other reserves and legal reserves

Share capital is set at EUR 440 thousand represented by 220 thousand shares with a nominal value of EUR 2 each and is authorised, issued and fully paid.

At the Annual General meeting of NFI held on 28 April 2020, NFI decided to carry forward the 2019 result.

At the Annual General meeting of NFI held on 28 April 2021, NFI decided to carry forward the 2020 result.

Under Luxembourg law, NFI is allowed to deduct part of the net wealth tax from the corporate income tax of the same year, provided that a reserve is created corresponding to five times the net wealth tax deducted and that this reserve is maintained for a period of five tax years following the year of deduction.

As at 30 June 2021 the net wealth tax reserve is EUR 3 630 thousand (31 December 2020: EUR 3 630 thousand) of which EUR 1 308 thousand (2020: EUR 1 308 thousand) is distributable to the shareholder.

Under Luxembourg law, NFI is required to appropriate annually at least 5% of its statutory net profit to a non-distributable legal reserve until the aggregate reserve reaches 10% of the subscribed capital. The reserve is fully constituted for EUR 44 thousand.

5. Dividends

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting of NFI. At the Board of Directors Meeting of NFI held on 28 April 2021, the Board decided not to propose any dividend payment to the shareholder.

6. Debt securities

Bonds

During the six-month period January-June 2021, a series bonds were issued for a nominal value of EUR 3 150 million and no bonds repaid.

Commercial Paper

The outstanding amounts of commercial paper are EUR 1 320 million as at 30 June 2021 compared to EUR 1 062 million as at 31 December 2020.

The carrying amount of these instruments is a reasonable approximation of their fair value based on observable market data.

7. Transactions with related parties

Grant, receipt and repayments of loans with Nestlé Group companies for the six-month period January-June 2021 were as follows:

In thousands of Euro	January-June 2021	January -June 2020
Loans granted to Nestlé Group companies excluding accrued interest	16 558 725	3 533 694
Repayment of loans by Nestlé Group companies excluding accrued interest	-9 879 439	-408 015
Net loans and advances repaid by Nestlé Group companies	6 679 286	3 125 679
Loans received from Nestlé Group companies excluding accrued interest	6 936 369	5 458 793
Repayment of loans to Nestlé Group companies excluding accrued interest	-5 290 755	-5 596 246
Net loans and advances repaid to Nestlé Group companies	1 645 614	-137 453

8. Impacts of COVID-19

The long-term economic impacts of COVID-19 remain difficult to predict or quantify due to the pervasive effects of COVID-19. The Company has assessed the consequences of the COVID-19 pandemic on the Unaudited Financial Statements for the six-month period ended 30 June 2021, specifically considering the impacts on key judgements and significant estimates as detailed on page 16 of the 2020 Financial Statements of the Company. The Company will continue to monitor these areas of increased risk for material changes.

9. Events after the balance sheet date

There have been no significant events after the balance sheet date.

Responsibility Statement

Josiane Schroeder, Director, Patrick Yot, Director, Hermann Beythan, Director, Martin Huber, Director, Bruno Chazard, Director and Steve Flammang, Chief Accountant confirm that to the best of their knowledge:

- (a) the Unaudited Condensed Interim Financial Statements of NFI for the six-month period ended 30 June 2021, which have been prepared in accordance with IAS 34 Condensed Interim Financial Reporting as adopted by the European Union as well as with the laws and regulations in force in the Grand Duchy of Luxembourg, give a true and fair view of the assets, liabilities, financial position and profit or loss of NFI as required by DTR 4.2.4 and under article 4 (3) of the Luxembourg law of 11 January 2008 on transparency requirements for issuers, as amended (the “Transparency Law”); and
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7 and under article 4 (4) of the Transparency Law.

25 August 2021