Nestlé Good food, Good life

NHI Group

Annual Financial Report
December 31, 2021

3 **Management Report**

8 **Responsibility Statement**

9 **Report of Independent Auditors**

Consolidated Financial Statements
14 Consolidated income statement
15 Consolidated statement of comprehensive income
16 Consolidated balance sheet
18 Consolidated cash flow statement
19 Consolidated statement of changes in equity

Notes
20 1. Accounting policies
22 2. Scope of consolidation, acquisitions and disposals of businesses, assets held for sale and acquisitions of non-controlling interests
27 3. Analyses by segment
31 4. Net other trading and operating income/(expenses)
33 5. Net financial income/(expense)
34 6. Inventories
7. Trade and other receivables/payables
36 8. Property, plant and equipment
40 9. Goodwill and intangible assets
44 10. Employee benefits
51 11. Provisions and contingencies
53 12. Financial instruments
65 13. Taxes
68 14. Associates
15. Cash flow statement
70 16. Transactions with related parties
71 17. Events after the balance sheet date

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, which include, among others, Nestlé USA, Inc., Nestlé Purina Petcare Company, and Gerber Products Company. The NHI Group engages primarily in the manufacture and sale of food products, pet care products, premium waters, beverage products as well as nutrition and health science products. These businesses derive revenue across the United States and in some international markets.

Key Figures

In millions of Dollars

	2021	2020	Change
Sales	**26 945**	**23 585**	**14.2%**
Cost of goods sold	(15 303)	(13 267)	15.3%
as a percentage of sales	(56.8%)	(56.3%)	
Underlying Trading operating profit	1 295	2 361	(45.2%)
as a percentage of sales	4.8%	10.0%	
Trading operating profit	1 100	2 414	(54.4%)
as a percentage of sales	4.1%	10.2%	
Net financial expenses	(174)	(168)	3.6%
Taxes	60	(833)	(107.2%)
Profit for the period attributable to shareholders of the parent (Net profit)	689	3 290	(79.1%)
as a percentage of sales	2.6%	13.9%	
Operating cash flow	2 044	1 783	14.6%
as a percentage of sales	7.6%	7.6%	
Capital additions	2 788	3 063	(9.0%)
as a percentage of sales	10.3%	13.0%	

The NHI Group has delivered year-over-year improvements in sales. We are committed to continued execution of cost reduction initiatives and improved operational efficiencies. We continue to invest in our core brands and made progress towards key initiatives related to portfolio optimization including the acquisitions.

Sales

For the years ended December 31, 2021 and 2020, consolidated sales totaled $26.9 billion and $23.6 billion, respectively. The main factors per segment are as follows:

- **Nestlé USA Brands** sales were $11.5 billion and $10.3 billion for the years ended December 31, 2021 and 2020, respectively. The overall increase in sales was driven by the integration of International Premium Waters ("IPW") and Essentia Water businesses. Sales for beverages, including Starbucks at-home products, Coffeemate and Nesquick Ready-To-Drink, delivered single-digit growth. Frozen and chilled food saw mid single-digit growth with favorable sales developments for Stouffer's and Modern Health partially offset by supply challenges in frozen pizza.
- **PetCare** sales were $10.0 billion and $9.1 billion for the years ended December 31, 2021 and 2020, respectively. PetCare experienced strong demand for premium brands such as Purina Pro Plan, Purina ONE and Fancy Feast.
- **Other businesses** sales were $5.5 billion and $4.2 billion for the years ended December 31, 2021 and 2020, respectively. The overall recovery from COVID-19 and reopening of out-of-home food businesses contributed to the strong performance of Nestlé Professional coupled with the 12-month performance of 2020 acquisitions relating to Zenpep, Vital Proteins, and IM HealthScience compared to partial results included in the comparative period.

Profitability

Trading operating profit was $1.1 billion and $2.4 billion for the years ended December 31, 2021 and 2020, which equaled 4.1% and 10.2% of sales for each year, respectively. The decrease was attributed to significantly higher distribution costs, partially offset by the lower marketing and general administrative expenses.

Cost of goods sold was $15.3 billion and $13.3 billion for the years ended December 31, 2021 and 2020, which equaled 56.8% and 56.3% of sales for each year, respectively. The increase in costs was driven by higher input costs, supply chain disturbances and full integration of water business together with acquisition of the Essentia water. The NHI Group continued to take selling price increases to mitigate the input cost inflation throughout the year.

Distribution expenses were $2.8 billion and $2.1 billion for the years ended December 31, 2021 and 2020, which equaled 10.4% and 8.7% of sales for each year, respectively. The increase was mainly attributed to integration of the water business, freight and transportation costs, storage costs, and supply timing.

Marketing, general and administrative expenses were $3.8 billion and $3.4 billion for the years ended December 31, 2021 and 2020, which equaled 14.0% and 14.3% of sales for each year, respectively. The decrease was enabled through the continued focus on elimination of waste, optimizing the structures and operational efficiencies.

Royalties to affiliated company were $3.8 billion and $2.5 billion for the years ended December 31, 2021 and 2020, respectively. The increase in royalties was due to a revision of the General License agreement resulting in one-off payment related to earlier years.

Net other trading (expenses)/income were ($195) million and $53 million for the years ended December 31, 2021 and 2020, respectively. The increase in expense was driven by higher provisions for restructuring and impairments as compared to the release of restructuring cost provisions as well as gains on real estate operations recognized in the prior comparative period as an offset to expense.

Net Profit Margin – Other Items of Note

The net profit was $689 million as compared to $3290 million for the years ended December 31, 2021 and 2020 respectively. The results of 2020 were favorably impacted by one-off gains linked to the disposal of the Ice Cream business and income from associates while the results of 2021 were impacted by the impairment of goodwill and the factors mentioned above under trading operating profit analysis.

Taxes were $60 million and ($833) million for each of the years ended December 31, 2021 and 2020, respectively. The decrease was primarily due to the result of the tax effect of the decrease in Profit before taxes and associates.

Cash Flow
Operating cash flow was $2.0 billion and $1.8 billion for the years ended December 31, 2021 and 2020, respectively. The increase was driven by improvements in the working capital.

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.

The COVID-19 pandemic continues to have an impact on operating environments across Nestlé markets. The continued 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 take actions to mitigate the adverse impacts.

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 its 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, acquisitions, and divestitures. 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, conflict 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 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.

Responsibility Statement

Giulio Gerardo, Chief Financial Officer, confirms that to the best of his knowledge:

(a) the financial statements of NHI Group for the annual period ended December 31, 2021, which have been prepared in accordance with 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.

March 17, 2022

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Report of Independent Auditors

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

Opinion

We have audited the consolidated financial statements of Nestlé Holdings, Inc. and its subsidiaries (the "NHI Group"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the NHI Group at December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the NHI Group, and have fulfilled our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits, which include relevant ethical requirements in the United States of America and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants. 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 were communicated with those charged with governance and, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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.

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 consolidated 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 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 financial statements, the NHI Group has $15.1 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.

The NHI Group recognized an impairment charge of $494 million in the year ended December 31, 2021 related to the goodwill of the Freshly CGU. There were no other goodwill or indefinite life intangible impairment charges recognized in the year ended December 31, 2021 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 and impairment, where applicable, 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 financial statements in relation to the relevant accounting standards.

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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.

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

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

In preparing the 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.

Management is responsible for presenting and marking up the financial statements in compliance with the requirements set out in the Delegated Regulation 2019/815 on European Single Electronic Format ("ESEF Regulation").

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and ISAs will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and ISAs, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- 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 to events or conditions that may cast significant doubt on 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 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 financial statements. We are responsible for the direction, supervision, and performance of the group audit of the NHI Group. We remain solely responsible for our audit opinion.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Our responsibility is to assess whether the financial statements have been prepared in all material respects with the requirements laid down in the ESEF Regulation.

Other information

Management is responsible for the other information. The other information comprises Management's Report included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Other Legal and Regulatory Requirements

We have checked the compliance of the financial statements of the NHI Group as at December 31, 2021 with relevant requirements set out in the ESEF Regulation that are applicable to financial statements.

For the NHI Group it relates to:

- Financial statements prepared in a valid xHTML format;
- The XBRL markup of the consolidated financial statements using the core taxonomy and the common rules on markups specified in in the ESEF Regulation.

In our opinion, the consolidated financial statements of the NHI Group as at December 31, 2021, "nestle-holdings-inc-fullyear-financial-report-2021-en", have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

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

Ernst + Young LLP

March 17, 2022

Consolidated income statement for the year ended December 31, 2021

In millions of Dollars

	Notes	2021	2020
Sales	3	**26 945**	**23 585**
Cost of goods sold		(15 303)	(13 267)
Distribution expenses		(2 792)	(2 050)
Marketing and administrative expenses		(3 761)	(3 383)
Royalties to affiliated company	16	(3 794)	(2 524)
Other trading income	4	61	172
Other trading expenses	4	(256)	(119)
Trading operating profit	3	**1 100**	**2 414**
Other operating income	4	505	2 067
Other operating expenses	4	(803)	(389)
Operating profit		**802**	**4 092**
Financial income	5	480	499
Financial expense	5	(654)	(667)
Profit before taxes and associates		**628**	**3 924**
Taxes	13	60	(833)
Income from associates	14	—	194
Profit for the year		**688**	**3 285**
of which attributable to non-controlling interests		(1)	(5)
of which attributable to shareholders of the parent (Net profit)		689	3 290

Consolidated statement of comprehensive income for the year ended December 31, 2021

In millions of Dollars

	Notes	2021	2020
Profit for the year recognized in the consolidated income statement		**688**	**3 285**
Changes in cash flow hedge and cost of hedge reserves, net of taxes		64	(28)
Items that are or may be reclassified subsequently to the consolidated income statement		64	(28)
Remeasurement of defined benefit plans, net of taxes	10	157	(171)
Items that will never be reclassified to the consolidated income statement		157	(171)
Other comprehensive income/(loss) for the year		**221**	**(199)**
Total comprehensive income for the year		**909**	**3 086**
of which attributable to non-controlling interests		(1)	(5)
of which attributable to shareholders of the parent		910	3 091

Consolidated balance sheet as at December 31, 2021

In millions of Dollars

	Notes	2021	2020
Assets			
Current assets			
Cash and cash equivalents	12/15	493	350
Short-term investments	12	3 212	18
Inventories	6	3 056	2 596
Trade and other receivables	7/12	2 654	2 275
Loans to parent and affiliates	12/16	20 947	19 844
Prepayments and accrued income		57	33
Derivative assets	12	42	75
Assets held for sale	2	—	35
Total current assets		**30 461**	**25 226**
Non-current assets			
Property, plant and equipment	8	8 178	6 633
Goodwill	9	15 110	15 209
Intangible assets	9	4 619	4 572
Investments in associates	14	18	17
Financial assets	12	1 350	1 334
Loans to parent and affiliates	16	1 000	1 224
Employee benefits assets	10	201	179
Total non-current assets		**30 476**	**29 168**
Total assets		**60 937**	**54 394**

In millions of Dollars

	Notes	2021	2020
Liabilities and equity			
Current liabilities			
Financial debt	12	2 764	7 036
Trade and other payables	7/12	4 581	3 050
Loans from affiliates	16	3 068	442
Accruals and deferred income		2 242	2 053
Provisions	11	104	75
Derivative liabilities	12	126	13
Current income tax liabilities		404	874
Liabilities directly associated with assets held for sale	2	—	1
Total current liabilities		**13 289**	**13 544**
Non-current liabilities			
Financial debt	12	22 329	15 919
Employee benefits liabilities	10	1 736	1 810
Provisions	11	55	58
Deferred tax liabilities	13	1 029	815
Other payables		41	637
Total non-current liabilities		**25 190**	**19 239**
Total liabilities		**38 479**	**32 783**
Equity			
Share capital, $100 par value. Authorized, issued and outstanding 1,000 shares		—	—
Additional paid-in capital		5 680	5 705
Other reserves		(945)	(1 166)
Retained earnings		17 723	17 030
Total equity attributable to shareholders of the parent		**22 458**	**21 569**
Non-controlling interests		—	42
Total equity		**22 458**	**21 611**
Total liabilities and equity		**60 937**	**54 394**

Consolidated cash flow statement for the year ended December 31, 2021

In millions of Dollars	Notes	2021	2020
Operating activities			
Operating profit	15	802	4 092
Depreciation and amortization	15	771	697
Impairment		569	16
Net result on disposal of businesses	4	24	(1 943)
Other non-cash items of income and expense		(455)	(88)
Cash flow before changes in operating assets and liabilities		**1 711**	**2 774**
Decrease/(increase) in working capital	15	582	(262)
Variation of other operating assets and liabilities	15	262	(222)
Cash generated from operations		**2 555**	**2 290**
Interest paid		(825)	(649)
Interest received on loans to affiliates, net		480	480
Taxes paid		(166)	(338)
Operating cash flow		**2 044**	**1 783**
Investing activities			
Capital expenditure	8	(1 841)	(1 203)
Expenditure on intangible assets	9	(79)	(71)
Acquisition of businesses	2	(708)	(849)
Disposal of businesses	2	(13)	4 007
(Investments) in associates and joint ventures, net of divestments		(61)	(60)
Outflows from short-term treasury investments		(3 194)	(6)
Other investing activities		22	309
Investing cash flow		**(5 874)**	**2 127**
Financing activities			
Loans (to)/from parent and affiliates, net	16	1 916	(4 391)
Inflows from bonds and other non-current financial debt	12	8 249	3 976
Outflows from bonds and other non-current financial debt	12	(3 048)	(2 080)
Outflows from current financial debt	12	(3 144)	(1 388)
Financing cash flow		**3 973**	**(3 883)**
Increase in cash and cash equivalents		**143**	**27**
Cash and cash equivalents at beginning of year		350	323
Cash and cash equivalents at end of year	15	**493**	**350**

Consolidated statement of changes in equity for the year ended December 31, 2021

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, 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 [a]	—	—	(199)	—	(199)	—	(199)
Total comprehensive income/(loss) for the year	**—**	**—**	**(199)**	**3 290**	**3 091**	**(5)**	**3 086**
Changes in non-controlling interest, net of tax [b]	—	—	—	(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**
Equity as at January 1, 2021	**—**	**5 705**	**(1 166)**	**17 030**	**21 569**	**42**	**21 611**
Profit for the year	—	—	—	689	689	(1)	688
Other comprehensive income for the year [a]	—	—	221	—	221	—	221
Total comprehensive income/(loss) for the year	**—**	**—**	**221**	**689**	**910**	**(1)**	**909**
Distributions paid to non-controlling interests	—	—	—	—	—	(8)	(8)
Changes in non-controlling interest, net of tax [b]	—	—	—	4	4	(33)	(29)
Capital distribution (see Note 16) [c]	—	(25)	—	—	(25)	—	(25)
Equity as at December 31, 2021	**—**	**5 680**	**(945)**	**17 723**	**22 458**	**—**	**22 458**

(a) Related to changes in cash flow hedge and cost of hedge reserves, net of taxes and remeasurement of defined benefit plans, net of taxes.

(b) Movements reported under retained earnings include put options for the acquisition of non-controlling interests.

(c) Related to transfer of net liabilities of BBC Intermediate Holdings to the NHI Group. See Note 16.

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 2021 were authorized for issuance by NHI's directors on March 17, 2022.

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. Management believes that the financial statements as of December 31, 2021, reflect the most reasonable view of the value of the assets and liabilities at this date.

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, liabilities and disclosures. Estimated climate impacts, current and probable stated regulatory changes and Nestlé's environmental commitments have been taken into account. 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 may 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), 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 judgements and uncertainties have been taken into account considering that the long-term economic impacts of COVID-19 remain difficult to predict or quantify due to its pervasive effects.

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.

Changes in Accounting Standards

A number of standards have been modified on miscellaneous points with effect from January 1, 2021 which have no material impact on the NHI Group's Financial Statements. These include COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16), and Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest rate benchmark reform - Phase 2.

Changes in IFRS that may affect the NHI Group after December 31, 2021

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 Parent company of the Nestlé group of companies (hereinafter, referred to as the "Nestlé Group"). The NHI Group's registered office is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, United States and its principal place of business is located at 1812 North Moore Street, Arlington, Virginia 22209, United States.

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.

As part of the Consolidated Financial Statements, 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 2021, the significant acquisition was:

- Essentia Water – Premium functional water brand – 100% owned by the NHI Group, early March.

Cash outflows in 2021 are mainly related to the Essentia Water acquisition.

- In 2020, the significant acquisition was: Freshly – healthy prepared meals – 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, Nations Pizza was acquired in 2020.

Disposals

There were no significant disposals during 2021.

In 2020, there was one significant disposal:

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

Cash outflows during 2021 are related mainly to other non-significant disposals. Cash inflows during 2020 mainly relate to the Ice Cream business and other non-significant disposals.

2.2 Acquisitions of businesses

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

In millions of Dollars

	2021	2020
	Total (a)	**Total** (b)
Property, plant and equipment	22	106
Intangible assets	310	613
Inventories, prepaid inventories and other assets	25	126
Financial debt	(20)	(95)
Deferred taxes	(3)	(120)
Other liabilities	(20)	(85)
Fair value of identifiable net assets	**314**	545

(a) Related mainly to Essentia Water acquisition.
(b) Related mainly to Freshly acquisition.

The goodwill arising on acquisitions and the cash outflows are:

In millions of Dollars

	2021	2020
	Total (a)	**Total** (b)
Fair value of consideration transferred	709	1 224
Non-controlling Interests	—	38
Fair value of pre-existing interests	—	220
Subtotal	709	1 482
Fair value of identifiable net (assets)/ liabilities	(314)	(545)
Goodwill	**395**	937
Fair value of consideration transferred	709	1 224
Cash and cash equivalents acquired	(1)	(52)
Consideration payable	—	(328)
Payment of consideration payable on prior years acquisitions	—	5
Cash outflow on acquisitions	**708**	849

(a) Related mainly to Essentia Water acquisition.
(b) Related mainly to Freshly acquisition.

With regards to Freshly for the year ended December 31, 2020, the consideration payable included an amount of contingent consideration with an estimated fair value of $313 million at the date of acquisition (categorized within Level 3 of the fair value hierarchy). The contingent consideration is in the form of an earn-out. Using the valuation methodology consistent with the prior year, updated with the revised forecasts, it has been reassessed as of December 31, 2021 and adjusted downwards by $288 million (reflected in Other operating income and expenses, see Note 4.2)

Essentia Water

On March 5, 2021, the NHI Group acquired 100% of the ownership interests of Essentia Sub, LLC ("Essentia") from Essentia Water, LLC, with consideration paid in cash. Essentia is a premium ionized alkaline bottled water. This transaction brings together NHI Group's expertise in the water business with Essentia's premium products and distribution network to fuel growth opportunities within the Nestlé Premium Waters business and across NHI Group's portfolio. The goodwill arising on this acquisition includes elements such as market share and growth potential in premium water as well as leveraging the Nestlé Group's expertise and research and development. This goodwill is expected to be deductible for tax purposes.

Impacts of Essentia on the sales and profit for the year

Amounts included in the 2021 Consolidated Financial Statements from Essentia were sales of $229 million and a profit of the year of $40 million.

The NHI Group's total sales and profit for the year would have respectively amounted to $26 978 million and $632 million if the acquisition had been effective January 1, 2021.

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.

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 $76 million and a loss of $3 million.

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

2.3 Disposals of businesses

There were no significant disposals during 2021. In 2020, the gain on disposal of businesses, recorded in Other operating income, is mainly composed of the gain on disposal of the US Ice Cream business.

	2021			2020
	Total (a)	US Ice Cream	Other	**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	9	193	10	**203**
Other assets	3	39	—	**39**
Financial liabilities	—	(17)	—	**(17)**
Deferred tax liabilities	—	(88)	—	**(88)**
Other liabilities	(1)	(8)	(13)	**(21)**
Net assets disposed of	**11**	**1 985**	**62**	**2 047**
Profit/(loss) on disposals, net of disposal costs	(24)	2 011	(68)	**1 943**
Total disposal consideration, net of disposal costs	**(13)**	**3 996**	**(6)**	**3 990**
Cash and cash equivalents disposed of	—	(1)	—	**(1)**
Disposal costs not yet paid	—	14	4	**18**
Cash inflow/(outflow) on disposals, net of disposal costs	**(13)**	**4 009**	**(2)**	**4 007**

(a) Relates to true-up of previous 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, 2021 and December 31, 2020, there were no significant assets and liabilities held for sale.

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.

In 2021, the NHI Group increased its ownership interests in Freshly and Vital Proteins leading to a decrease of non-controlling interests amounting to $33 million. The consideration to non-controlling interests in 2021 was in the form of cash of $72 million and the recognition of a payable of $181 million. Part of the consideration was recorded as a liability in previous years for $196 million.

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 Nestlé Group 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 segment performance of the NHI Group.

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 and for services rendered to customers and affiliates (outside of the NHI Group). Sales are recognized when control of the goods has transferred to the customer, which is mainly upon arrival at the domestic customer and in accordance with International Commercial Terms ("incoterms") for exports.

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

	Brands (a)	PetCare	Other (a)	2021 Total
Sales	11 490	9 980	5 475	**26 945**
Underlying Trading operating profit (b)	648	633	14	**1 295**
Trading operating profit (loss) (c)	608	616	(124)	**1 100**
Net other trading (expenses) income (d)	(40)	(18)	(137)	**(195)**
Of which impairment of property, plant and equipment	(10)	—	(65)	**(75)**
Of which restructuring costs	(9)	—	(39)	**(48)**
Depreciation and amortization	(266)	(300)	(205)	**(771)**

	Brands (a)	PetCare	Other (a)	2020 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) (c)	900	1 322	192	**2 414**
Net other trading (expenses) income (d)	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)**

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

Invested capital and other information

In millions of Dollars

	Brands (a)	PetCare	Other	2021 Total
Invested capital	1 569	4 458	1 536	**7 563**
Goodwill and intangible assets	9 057	8 888	1 784	**19 729**
Impairment of goodwill	—	—	(494)	**(494)**
Capital additions	1 119	1 401	268	**2 788**

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

(a) Nestlé USA Brands primarily consists of beverage (including Nestlé Coffee Partners), prepared foods, snacks, and other food products. Nutrition primarily consists of infant and baby food products. Other primarily consists of Freshly, 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

	2021	2020
Underlying Trading operating profit [a] as per Note 3.1	**1 295**	**2 361**
Net other trading income/(expenses) as per Note 4.1	(195)	53
Trading operating profit as per Note 3.1	**1 100**	**2 414**
Net other operating income/(expenses)	(298)	1 678
Operating profit	**802**	**4 092**
Net financial expense	(174)	(168)
Profit before taxes and associates	**628**	**3 924**

(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

	2021	2020
Invested capital as per Note 3.1	7 563	6 489
Liabilities included in invested capital	7 058	5 085
Subtotal	14 621	11 574
Intangible assets and goodwill as per Note 3.1	19 729	19 781
Other assets	26 587	23 039
Total assets	**60 937**	**54 394**

3.3 Customers

The NHI Group has one customer, with sales in all segments of the business, amounting to 20% and 23% of the NHI Group's sales for the years ended December 31, 2021 and 2020, respectively.

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 goodwill), litigation (related legal, advisory, and other professional fees) 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 including extreme weather events linked to climate change, as well as expropriation of assets.

4.1 Net other trading income/(expenses)

In millions of Dollars	2021	2020
Return on company-owned life insurance	53	81
Reversal of unused restructuring provisions	7	43
Miscellaneous trading income	1	—
Gain on sale of real estate	—	48
Other trading income	**61**	**172**
Restructuring costs	(56)	(20)
Impairment of property, plant and equipment and intangible assets	(75)	(16)
Litigation and onerous contracts [(a)]	(61)	(29)
Result on deferred compensation	(51)	(43)
Miscellaneous trading expenses	(13)	(11)
Other trading expenses	**(256)**	**(119)**
Total net other trading (expenses)/income	**(195)**	**53**

(a) Relating principally to a number of separate legal cases, liabilities linked to voluntary product withdrawals and various separate onerous contracts.

4.2 Net other operating income/(expenses)

In millions of Dollars	2021	2020
Gain on disposal of businesses [a]	—	2 011
Re-measurement of contingent consideration and other compensation liabilities [b]	378	—
Miscellaneous operating income [c]	127	56
Other operating income	**505**	**2 067**
Loss/expenditures on disposal of business [a]	31	(68)
Impairment of goodwill [d]	(494)	—
Miscellaneous operating expenses [c]	(340)	(321)
Other operating expenses	**(803)**	**(389)**
Total net other operating (expenses)/income	**(298)**	**1 678**

(a) See disposals of businesses. See Note 2.3.
(b) Mainly related to Freshly items. See Note 2.2.
(c) Miscellaneous operating income mainly consists of transitional services provided to disposed businesses. Miscellaneous operating expenses include mainly expenses of transitional services provided to disposed businesses, natural disasters and costs related to COVID-19. COVID-19 expenses relate primarily to safety related costs (gloves, masks, cleaning and sanitizing, screening, and vaccines among others).
(d) See goodwill and intangible assets. See Note 9.

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	2021	2020
Interest income		464	486
Interest expense		(621)	(638)
Net financing cost of net debt		**(157)**	**(152)**
Interest income on defined benefit plans	7	16	13
Interest expense on defined benefit plans	7	(33)	(33)
Net interest expense on defined benefit plans		**(17)**	**(20)**
Other		—	4
Net financial (expenses)/income		**(174)**	**(168)**

Interest expense on amounts due to affiliated companies, and bonds and commercial paper guarantee fees to Nestlé S.A. amounted to $89 million and $80 million in 2021 and 2020, respectively. Interest income on amounts due from parent and affiliated companies amounted to $464 million and $486 million in 2021 and 2020, 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

	2021	2020
Raw materials and work in progress	845	738
Finished goods	2 261	1 897
Allowance for write-down to net realizable value	(50)	(39)
Total	**3 056**	**2 596**

Inventories amounting to $15 000 million (2020: $12 909 million) were recognized as an expense during the year and included in Cost of goods sold.

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

	2021			2020		
	Gross carrying amount	Expected credit loss allowance	Total	Gross carrying amount	Expected credit loss allowance	Total
Trade receivables (not credit impaired)	2 415	(7)	**2 408**	1 950	(10)	**1 940**
Other receivables (not credit impaired)	245	—	**245**	335	—	**335**
Credit impaired trade and other receivables	2	(1)	**1**	1	(1)	—
Total	**2 662**	**(8)**	**2 654**	**2 286**	**(11)**	**2 275**

The five major customers represent 40% (2020: 40%) of trade and other receivables, none of them individually exceeding 19% (2020: 19%).

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

	2021	2020
Due within one year		
Trade payables	4 383	3 046
Other payables	198	4
Total	**4 581**	**3 050**

8. Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

In millions of Dollars	2021	2020
Property, plant and equipment – owned	7 407	5 968
Right-of-use assets – leased	771	665
Total	**8 178**	**6 633**

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

2021	Land and buildings	Plant and machinery	Tools, furniture, and sundry	Vehicles	Information technology equipment	Assets under Construction	**Total**
Net carrying amount							
At January 1, 2021	2 190	2 313	195	6	84	1 180	**5 968**
Additions (a)	144	96	77	—	3	1 659	**1 979**
Classification from assets under construction	136	378	11	11	24	(560)	**—**
Acquisitions through business combinations	48	8	—	—	1	—	**57**
Depreciation	(121)	(336)	(68)	(6)	(40)	—	**(571)**
Impairment of assets (Note 4)	(1)	(6)	—	(3)	(3)	—	**(13)**
Disposals	—	(4)	(12)	—	—	—	**(16)**
Classification (to)/from held for sale and disposals of businesses	—	—	—	3	—	—	**3**
At December 31, 2021	**2 396**	**2 449**	**203**	**11**	**69**	**2 279**	**7 407**
Gross value	3 772	6 495	786	88	335	2 279	**13 755**
Accumulated depreciation and impairments	(1 376)	(4 046)	(583)	(77)	(266)	—	**(6 348)**

In millions of Dollars

2020	Land and buildings	Plant and machinery	Tools, furniture, and sundry	Vehicles	Information technology equipment	Assets under Construction	**Total**
Net carrying amount							
At January 1, 2020	2 220	2 237	183	6	101	569	**5 316**
Additions (a)	49	29	5	—	2	1 130	**1 215**
Classification from assets under construction	16	364	94	13	32	(519)	**—**
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	**2 190**	**2 313**	**195**	**6**	**84**	**1 180**	**5 968**
Gross value	3 399	6 086	790	88	363	1 180	**11 906**
Accumulated depreciation and impairments	(1 209)	(3 773)	(595)	(82)	(279)	—	**(5 938)**

(a) Including borrowing costs.

There were $909 million and $1735 million in commitments for future capital expenditures as of December 31, 2021 and 2020, respectively.

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 technological obsolescence (including changes due to a transition to a low carbon economy), 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 renegotiation, 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 undiscounted payments would amount to $613 million at December 31, 2021 (2020: $578 million).

Vehicle 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

				2021
	Land and buildings	Vehicles	Other	**Total**
Net carrying amount				
At January 1, 2021	609	28	28	**665**
Additions	126	7	17	**150**
Depreciation	(101)	(14)	(17)	**(132)**
Impairments	(62)	—	—	**(62)**
Classification to/from held for sale and change of scope of consolidation, net	149	—	1	**150**
At December 31, 2021	**721**	**21**	**29**	**771**

				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**

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 $25 million (2020: $22 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 $129 million (2020: $135 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		
		2021
	Goodwill	Intangible assets
Net carrying amount		
At January 1, 2021	15 209	4 572
Expenditure	—	79
Acquisitions through business combinations (a)	395	423
Amortization	—	(68)
Impairment (b)	(494)	—
Disposals (c)	—	(387)
Classification to held for sale and disposals of businesses	—	—
At December 31, 2021	**15 110**	**4 619**
of which indefinite useful life (d)	—	4 198
At December 31, 2021		
Gross value	19 063	5 753
Accumulated amortization and impairments	(3 953)	(1 134)

		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 (c)	—	(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 (d)	—	4 200
At December 31, 2020		
Gross value	18 668	5 736
Accumulated amortization and impairments	(3 459)	(1 164)

(a) Includes intangible assets received from common control business combinations. See Note 16.
(b) Refer to Note 9.1.1.
(c) Includes the sale of a trademark to a Nestlé Group affiliate. See Note 16.
(d) Of which $4,198 million (2019: $4,200 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.

For indefinite life intangible assets, the NHI Group performs the test at the level of the smallest identifiable assets or 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

The impairment charge for 2021 relates to the goodwill associated with the Freshly CGU which is included in Other segments. The Freshly CGU is comprised of the net assets related only to the Freshly acquisition.

As a result of the prolonged continuation of COVID-19, Freshly experienced a change in market conditions resulting in sales and the operating profit delivering below projections during the second half of the year. These factors, along with increasing competitive pressures and net cost of customer acquisition, resulted in downward revision of projected cash flows and a recoverable amount of the CGU lower than its carrying amount. Consequently, a goodwill impairment charge amounting to $494 million has been recognized for the year ended December 31, 2021 in net other operating expenses (see Note 4.2) of the consolidated income statement. There was no impairment of the carrying amounts of other assets of the CGU. The recoverable amount has been determined based upon a fair value less costs of disposal calculation (see Note 9.1.2), as follows:

	Freshly
Key assumptions [(a)]	
Sales growth	Low double digit
Margin evolution	Moderate improvement
Terminal growth rate	3.0%
Discount rate	8.5%
Financial impact (in millions)	
Impairment	494
Recoverable amount after impairment	399

(a) Assumptions are based on a period of cash flow projections of 10 years.

9.1.2 Annual impairment tests

Impairment reviews have been conducted for ten Cash Generating Units (CGU). Impairment reviews on intangible assets with indefinite useful life ("IAIUL") were performed at the level of the smallest identifiable assets or group of assets.

The following table sets out the key assumptions for CGUs that have significant Goodwill or IAIUL allocated to them.

		Goodwill carrying amount	IAIUL carrying amount	Period of cash flow projections	Average annual sales growth	Annual margin evolution	Terminal growth rate	Discount rate
2021	**CGU**							
	PetCare	8 814	—	5 years	5.1%	Improvement	1.5%	5.4%
	Food	3 059	—	5 years	3.8%	Stable	1.5%	5.4%
	Beverages	1 134	4 195	5 years	2.6%	Improvement	1.5%	5.4%
	Subtotal	13 007	4 195					
	Other CGUs	2 103	3					
	Total Goodwill	**15 110**	**4 198**					
2020	**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%
	Beverages	1 134	4 195	5 years	1.9%	Declining	1.7%	6.8%
	Subtotal	13 007	4 195					
	Other CGUs	2 202	5					
	Total Goodwill	**15 209**	**4 200**					

For each CGU the recoverable amount is higher than its carrying amount, except for the Freshly CGU. The recoverable amount has been determined based upon a fair value less costs of disposal 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 for all CGUs except Freshly (see Note 9.1.1) 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 cash flows have been discounted at post-tax weighted average rates. 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 was 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 taking into account the latest outlook for long-term inflation.
- 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 material 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 $2499 million (2020: $2673 million) and welfare expenses of $1099 million (2020: $736 million) represent a total of $3598 million (2020: $3409 million). In addition, certain NHI Group employees are eligible to receive long-term incentives in the form of equity compensation plans, for which the cost amounts to $112 million (2020: $124 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. With the exception of certain Nestlé Purina hourly employees, The Nestlé Pension 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 2021, however, expected contributions for 2022 will be approximately $64 million.

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

NHI entities are collectively members of four multi-employer defined benefit pension plans, including the Central States Southeast and Southwest Areas Pension Fund ("Central States"), the Western Conference of Teamsters Pension Trust Fund, the Stationary Engineers Local 39 Pension Trust Fund and the Central Pension Fund of the International Union of Operating Engineers and Participating Employers.

NHI makes contributions to these plans based on a rate per hour as agreed under collective bargaining arrangements with the applicable Unions.

No NHI entity was listed on available plan tax filings as an entity that provides more than 5 percent of any of the plans' contributions.

These plans are managed by an independent trustee board typically appointed in equal number by employers and unions. The trustees, not NHI or its entities, are responsible for the investment of plan assets and the administration of the plans, including maintenance of participant records.

The actuarial risks of participating in multiemployer pension plans are different from single-employer plans. Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer ceases contributions to a plan, the unfunded obligations of the plan are allocated to the remaining participating employers.

Information about a participating employer's allocation of a plan's unfunded actuarial liability is only made available upon request to the trustees. The Central States plan has a Pension Protection Act (PPA) zone status of "Red" as of the most recent publicly available tax form filing. A PPA red zone status means that the plan is generally less than 65 percent funded. The remaining plans in which NHI participates are in a green PPA zone status as of their most recent government form filings. A PPA green zone status means that the plan is at least 80 percent funded. The American Rescue Plan passed by Congress in March 2021 is expected to substantially improve the funded status of the Central States plan once it is able to apply for and receive the funds that will be allocated to it.

If an NHI entity were to cease participation in any of the multi-employer pension plans, that entity would be allocated a portion of the plan's unfunded actuarial liability, otherwise known as withdrawal liability. A cessation of participation in a multi-employer plan would most commonly be triggered through negotiation with the union. NHI entities have no current existing negotiated withdrawals from any of the named multi-employer pension plans.

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 by management as to whether they are aligned with market practice in the local context.

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 2021 were $7 million (2020: ($5) 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

			2021			2020
	Defined benefit retirement plans	Post employment medical benefits	**Total**	Defined benefit retirement plans	Post employment medical benefits	**Total**
Present value of funded obligations	4 147	—	**4 147**	4 398	—	**4 398**
Fair value of plan assets	(4 348)	—	**(4 348)**	(4 577)	—	**(4 577)**
Excess of liabilities/(assets) over funded obligations	(201)	—	**(201)**	(179)	—	**(179)**
Present value of unfunded obligations	532	582	**1 114**	565	630	**1 195**
Net Defined Benefit Liabilities	**331**	**582**	**913**	**386**	**630**	**1 016**
Other employee benefit liabilities			**622**			**615**
Net Liabilities			**1 535**			**1 631**
Reflected in the consolidated balance sheet as follows:						
Employee benefit assets			**(201)**			**(179)**
Employee benefit liabilities			**1 736**			**1 810**
Net Liabilities			**1 535**			**1 631**

10.2b Movement in present value of defined benefit obligations

In millions of Dollars

	2021			2020		
	Defined benefit retirement plans	Post employment medical benefits	**Total**	Defined benefit retirement plans	Post employment medical benefits	**Total**
At January 1	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**
Service cost	176	10	**186**	140	10	**150**
of which current service cost	169	10	**179**	143	12	**155**
of which past service cost and (gains)/losses arising from settlements	7	—	**7**	(3)	(2)	**(5)**
Interest expense	115	13	**128**	141	17	**158**
Actuarial losses	(147)	(34)	**(181)**	549	60	**609**
Benefits paid on funded defined benefit plans	(366)	—	**(366)**	(403)	—	**(403)**
Benefits paid on unfunded defined benefit plans	(65)	(37)	**(102)**	(55)	(34)	**(89)**
Plan Mergers	3	—	**3**	—	—	**—**
Reclassification of Executive savings plan	—	—	**—**	88	—	**88**
At December 31	**4 679**	**582**	**5 261**	**4 963**	**630**	**5 593**
of which funded defined benefit plans	4 147	—	**4 147**	4 398	—	**4 398**
of which unfunded defined benefit plans	532	582	**1 114**	565	630	**1 195**

10.2c Movement in the fair value of defined benefit assets

In millions of Dollars

	2021	2020
	Defined benefit retirement plans	Defined benefit retirement plans
At January 1	4 577	4 461
Interest income	109	140
Actual return on plan assets, excluding interest income	29	379
Employer contributions	64	55
Benefits paid on funded/unfunded defined benefit plans	(431)	(458)
At December 31	**4 348**	**4 577**

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

In millions of Dollars	2021	2020
December 31:		
Equities	23%	25%
Debts	63%	63%
of which government debts	36%	34%
of which corporate debts	27%	29%
Alternative investments	14%	12%

Equities and government debts represent 59% (2020: 59%) of the plan assets. Almost all of them are quoted in an active market. Corporate debts, real estate and hedge funds represent 41% (2020: 41%) 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	2021			2020		
	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	169	10	**179**	134	9	**143**
Net interest (income)/expense	5	12	**17**	3	17	**20**
Administration expenses	12	—	**12**	10	—	**10**
Defined benefit expenses	**186**	**22**	**208**	**147**	**26**	**173**
Defined contribution expenses			**120**			**92**
Total expenses			**328**			**265**

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	2021			2020		
	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	29	—	**29**	379	—	**379**
Experience adjustments on plan liabilities	(65)	9	**(56)**	(63)	(2)	**(65)**
Change in demographic assumptions on plan liabilities	—	—	**—**	(10)	(10)	**(20)**
Change in financial assumptions on plan liabilities	212	25	**237**	(475)	(48)	**(523)**
Remeasurement of defined benefit plans	**176**	**34**	**210**	**(169)**	**(60)**	**(229)**

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	2021	2020
Principal financial actuarial assumptions:		
Discount rates	2.79%	2.50%
Expected rates of salary increases	3.50%	3.50%
Medical cost trend rates	4.5%-6.00%	4.5%-6.25%

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)	
	2021	2020	2021	2020
Mortality table				
PRI-2012	20.9	20.8	22.9	22.8

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	2021	2020
As reported	**5 261**	**5 593**
Discount rates		
Increase of 50 basis points	4 974	5 259
Decrease of 50 basis points	5 581	5 964
Expected rates of salary increases		
Increase of 50 basis points	5 300	5 633
Decrease of 50 basis points	5 227	5 554
Medical cost trend rates		
Increase of 50 basis points	5 263	5 596
Decrease of 50 basis points	5 259	5 590
Mortality assumption		
Setting forward the tables by one year	5 153	5 529
Setting back the tables by one year	5 354	5 742

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, 2021, the weighted-average duration of the defined benefit obligation was 12 years (2020: 12.5 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, 2020	**44**	**23**	**10**	**56**	**133**
Provisions made in the year	56	—	23	71	150
Amounts used	(40)	(1)	(17)	(58)	(116)
Reversal of unused amounts	(7)	—	—	(1)	(8)
At December 31, 2021	**53**	**22**	**16**	**68**	**159**
of which expected to be settled within 12 months	52	—	10	42	104

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 2021, the NHI Group initiated and continued with a number of reorganizations within all of the operating segments to reduce structural costs and to optimize efficiencies.

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.

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.

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	2021 At amortized cost (a)	2021 At fair value to income statement	2021 At fair value to Other comprehensive income	2021 **Total categories**	2020 At amortized cost (a)	2020 At fair value to income statement	2020 At fair value to Other comprehensive income	2020 **Total categories**
Cash at bank and in hand	493	—	—	**493**	350	—	—	**350**
Bonds and debt funds	—	3 557	93	**3 650**	—	342	—	**342**
Equity and equity funds	—	255	3	**258**	—	337	6	**343**
Other financial assets	53	595	6	**654**	54	613	—	**667**
Liquid assets (b) and non-current financial assets	546	4 407	102	**5 055**	404	1 292	6	**1 702**
Trade and other receivables	2 654	—	—	**2 654**	2 275	—	—	**2 275**
Loans to parent and affiliates	21 947	—	—	**21 947**	21 068	—	—	**21 068**
Derivative assets (c)	—	42	—	**42**	—	75	—	**75**
Total financial assets	**25 147**	**4 449**	**102**	**29 698**	**23 747**	**1 367**	**6**	**25 120**
Trade and other payables	(4 597)	(25)	—	**(4 622)**	(3 374)	(313)	—	**(3 687)**
Financial debt	(25 093)	—	—	**(25 093)**	(22 955)	—	—	**(22 955)**
Loans from affiliates	(3 068)	—	—	**(3 068)**	(442)	—	—	**(442)**
Derivative liabilities (c)	—	(126)	—	**(126)**	—	(13)	—	**(13)**
Total financial liabilities	**(32 758)**	**(151)**	**—**	**(32 909)**	**(26 771)**	**(326)**	**—**	**(27 097)**
Net financial position	**(7 611)**	**4 298**	**102**	**(3 211)**	**(3 024)**	**1 041**	**6**	**(1 977)**
of which at fair value	—	4 298	102	**4 400**	—	1 041	6	**1 047**

(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) Includes 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	2021	2020
Derivative assets	39	29
Bonds and debt funds	3 200	2
Other financial assets	2	—
Prices quoted in active markets (Level 1)	**3 241**	**31**
Derivative assets	3	46
Bonds and debt funds	340	342
Equity and equity funds	348	337
Investments in life insurance company general accounts	595	613
Derivative liabilities	(126)	(13)
Valuation techniques based on observable market data (Level 2)	**1 160**	**1 325**
Financial assets	24	4
Financial liabilities [(a)]	(25)	(313)
Valuation techniques based on unobservable input (Level 3)	**(1)**	**(309)**
Total financial instruments at fair value	**4 400**	**1 047**

(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 2021 and in 2020.

12.1c Changes in liabilities arising from financing activities

In millions of Dollars

	2021	2020
At January 1	**(22 928)**	**(21 993)**
Changes in fair values	86	(88)
Changes arising from acquisition and disposal of businesses	(129)	(210)
Increase in lease liabilities, net	(189)	(133)
Inflows from bonds and other long-term financial debt	(8 249)	(3 976)
Outflows from bonds, lease liabilities, and other long-term financial debt	3 048	2 080
Outflows from current financial debt	3 144	1 388
Other	(2)	4
At December 31	**(25 219)**	**(22 928)**
of which current financial debt	(2 764)	(7 036)
of which non-current financial debt	(22 329)	(15 919)
of which derivatives hedging financial debt	(126)	27

12.1d Bonds

In millions of Dollars

	Comments	Coupon	Effective interest rate	Years of issue/ maturity	2021	2020
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
GBP 500	(a)	1.00%	1.17%	2017-2021	—	682
USD 1,000		3.10%	3.17%	2018-2021	—	1 000
USD 650		2.38%	2.50%	2017-2022	650	649
USD 300		2.25%	2.35%	2017-2022	300	300
USD 800		2.38%	2.55%	2017-2022	799	797
EUR 850	(a)	0.88%	0.92%	2017-2025	959	1 043
CHF 550	(a)	0.25%	0.24%	2017-2027	602	625
CHF 150		0.55%	0.54%	2017-2032	164	170
USD 550		3.13%	3.28%	2018-2023	549	548
USD 50		3.13%	3.24%	2018-2023	50	50
USD 1,500	(b)	3.35%	3.41%	2018-2023	1 499	1 499
USD 900	(b)	3.50%	3.59%	2018-2025	897	897
USD 1,250	(b)	3.63%	3.72%	2018-2028	1 243	1 243
USD 1,250	(b)	3.90%	4.01%	2018-2038	1 233	1 233
USD 2,100	(b)	4.00%	4.11%	2018-2048	2 062	2 062
USD 1,150	(b)	0.38%	0.49%	2020-2024	1 147	1 148
USD 750	(b)	0.63%	0.77%	2020-2026	746	745
USD 1,100	(b)	1.00%	1.06%	2020-2027	1 096	1 095
USD 1,000	(b)	1.25%	1.37%	2020-2030	990	989
USD 1,500	(b)	0.61%	0.66%	2021-2024	1 498	—
GBP 600	(b)	0.63%	0.75%	2021-2025	808	—
USD 300		1.13%	1.19%	2021-2026	299	—
USD 500	(b)	1.15%	1.22%	2021-2027	498	—
USD 1,000	(b)	1.50%	1.58%	2021-2028	995	—
CAD 2,000	(a)	2.19%	2.23%	2021-2029	1 571	—
USD 1,000	(b)	1.88%	1.91%	2021-2031	997	—
GBP 400	(b)	1.38%	1.46%	2021-2033	535	—
USD 500	(b)	2.50%	2.55%	2021-2041	496	—
USD 500	(b)	2.63%	2.69%	2021-2051	493	—
USD 63		9.30%	6.46%	1991-2021	—	63
USD 79		8.63%	6.46%	1992-2022	79	79
USD 44		8.13%	6.47%	1993-2023	45	44
USD 51		7.88%	6.45%	1995-2025	53	51
Other Bonds					2	2
Total carrying amount (c)					**23 355**	**18 164**
of which due within one year					1 828	2 895
of which due after one year					21 527	15 269
Fair value (c) of bonds, based on prices quoted (level 2)					24 255	19 937

(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) 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 $0 million (2020: $37 million) and under derivative liabilities of $126 million (2020: $2 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	2021	2020
Investment grade (A- and above)	4 593	1 270
Investment grade (BBB+, BBB and BBB-)	76	80
Non-investment grade (BB+ and below)	19	16
Not rated [(a)]	409	411
Total financial assets (excluding receivables and inter-group loans)	**5 097**	**1 777**

(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

						2021
	1st year	2nd year	3rd to 5th year	After the 5th year	Contractual amount	Carrying amount
Trade and other payables	4 581	—	—	—	4 581	4 581
Loan from affiliates	3 068	—	—	—	3 068	3 068
Commercial paper	512	—	—	—	512	512
Bonds	2 316	2 596	7 487	16 449	28 848	23 355
Lease liabilities	154	113	285	431	983	953
Other financial debt	237	—	—	—	237	237
Other financial liabilities	44	17	—	—	61	61
Total financial debt	**3 263**	**2 726**	**7 772**	**16 880**	**30 641**	**25 118**
Financial liabilities (excluding derivatives)	**10 912**	**2 726**	**7 772**	**16 880**	**38 290**	**32 767**
Non-currency derivative assets	(42)	—	—	—	(42)	(42)
Non-currency derivative liabilities	—	—	—	—	—	—
Gross amount receivable from currency derivatives	(36)	(16)	(1 806)	(773)	(2 631)	(2 595)
Gross amount payable from currency derivatives	79	59	1 956	770	2 864	2 721
Net derivatives	**1**	**43**	**150**	**(3)**	**191**	**84**
of which derivatives under cash flow hedges	3	42	150	(3)	192	84

						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

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 no VaR in 2021 and a non-significant potential one-day loss in 2020.

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 89% (2020: 69%).

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 used in the framework of approved risk management policies.

Derivatives by hedged risks

In millions of Dollars	2021			2020		
	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	—	—	—	—	—	—
Cash flow hedges:						
Currency risk on future purchases or sales	—	—	20	—	—	—
Foreign currency and interest rate risk on net financial debt	—	125	2 537	39	11	3 088
Commodity price risk on future purchases	42	1	165	36	—	206
Undesignated derivatives	—	—	—	—	2	—
Total derivatives	**42**	**126**	**2 722**	**75**	**13**	**3 294**
Derivative assets and liabilities	(3)	(80)	(83)	—	—	—
Balance after conditional offset	**39**	**46**	**2 639**	**75**	**13**	**3 294**

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	2021	2020
Current taxes	223	(571)
Deferred taxes	(163)	(262)
Taxes reclassified to equity	—	—
Income tax (expense)	**60**	**(833)**

13.2 Reconciliation of taxes recognized in the consolidated income statement

In millions of Dollars	2021	2020
Tax at theoretical rate	(157)	(1 005)
Tax effect on non-deductible amortization and impairment of goodwill and other intangible assets	(125)	(2)
Permanent differences on company-owned life insurance policies	16	25
Tax effect of non-deductible or non-taxable items	34	(139)
Prior years' taxes	275	294
Transfers from unrecognized deferred tax assets	18	—
Other taxes	(1)	(6)
Income tax (expense)	**60**	**(833)**

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

In millions of Dollars	2021	2020
Tangible fixed assets	(37)	(52)
Goodwill and other intangible assets	(104)	30
Employee benefits	1	37
Inventories, receivables, payables, accruals, and provisions	25	(50)
Financial instruments	—	(4)
Net operating losses	(35)	(40)
Other	(13)	(183)
Deferred tax (expense)/benefit	**(163)**	**(262)**

Taxes recognized in other comprehensive income/(loss):

In millions of Dollars	2021	2020
Tax effect relating to:		
Fair value adjustments on cash flow hedges	(22)	9
Defined benefit plan actuarial losses	(53)	58
Total taxes recognized	**(75)**	**67**

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	2021	2020
Employee benefits	450	500
Inventories, receivables, payables, accruals, and provisions	176	152
Financial instruments	—	16
Net operating losses	22	7
Others	10	—
Total deferred tax assets	**658**	**675**

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

In millions of Dollars	2021	2020
Tangible fixed assets	639	615
Goodwill and other intangible assets	1 023	865
Financial instruments	5	—
Others	20	10
Total deferred tax liabilities	**1 687**	**1 490**

Deferred tax is presented as a net deferred tax liability in the 2021 consolidated balance sheet at an amount of $1029 million (2020: $815 million).

13.4 Unrecognized deferred taxes

At December 31, 2021 and 2020, deferred taxes were recognized for all temporary differences, unless an exception from the general principal applied.

14. Associates

Associates are companies where the NHI Group has the power to exercise a significant influence but does not exercise control. Significant influence is the power to participate in the financial and operating policy decision of the investee, and the determination of whether the NHI Group has significant influence requires the exercise of judgment. It may be evidenced when the NHI Group has 20% or more of the voting rights in the investee or has obtained representation 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	
	2021	2020	2021	2020
TE Taygete Energy Holdco LLC	48%	48%	18	17
Total investments in associated companies			**18**	**17**

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

	2021	2020
Profit for the year	688	3 285
Income from associates	—	(194)
Taxes	(60)	833
Financial income	(480)	(499)
Financial expense	654	667
Total	**802**	**4 092**

15.2 Non-cash items of income and expense

In millions of Dollars

	2021	2020
Depreciation of property, plant and equipment	703	639
Impairment of property, plant and equipment	75	16
Amortization of intangible assets	68	59
Impairment of goodwill	494	—
Net result on disposal of businesses	24	(1 943)
Net result on disposal of assets	(2)	(106)
Non-cash items in financial assets and liabilities	(453)	18
Total	**909**	**(1 317)**

15.3 Decrease/(increase) in working capital

In millions of Dollars	2021	2020
Inventories	(447)	(548)
Trade and other receivables	(301)	56
Prepayments and accrued income	(25)	15
Trade and other payables	1 345	35
Accruals and deferred income	10	180
Total	**582**	**(262)**

15.4 Variation of other operating assets and liabilities

In millions of Dollars	2021	2020
Variation of employee benefits and liabilities	109	(9)
Variation of provisions	26	(207)
Other	127	(6)
Total	**262**	**(222)**

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	2021	2020
Salaries and other short-term employee benefits	17	14
Share-based payments	12	11
Post-employment benefits	2	1
Total compensation	**31**	**27**

Loans with related parties

In millions of Dollars	2021	2020
Loans to NIMCO US, Inc. (Parent) and NUSHI (NIMCO Parent):		
At January 1	14 963	12 502
Loans granted during year	2 937	2 461
Loan repayments	(302)	—
Adjustments due to scope change	(2)	—
At December 31	**17 596**	**14 963**
Loans to affiliates:		
At January 1	6 105	3 219
Loans granted during year	2 185	3 165
Loan repayments	(3 715)	(279)
Adjustments due to scope change	(224)	—
At December 31	**4 351**	**6 105**
Total loans to parent, NIMCO and affiliates	**21 947**	**21 068**
Of which current	20 947	19 844
Of which non-current	1 000	1 224
Loans from affiliates:		
At January 1	442	79
Loans received during year	3 047	364
Loan repayments	(421)	(1)
Total loans from affiliates at December 31	**3 068**	**442**

Transactions under common control
BBC Intermediate Holdings, high-end specialty coffee roaster, was acquired by the Nestlé Group and transferred to the NHI Group by NIMCO (Parent of NHI) in July 2021 at book value with net liabilities of $25 million contributed. Included in these net liabilities are $113 million of intangible assets, $115 million of ROU assets and $64 million of property, plant and equipment. In 2021, the NHI Group sold its participation in two BBC Intermediate Holdings subsidiaries to a Nestlé Group affiliate for a net gain of $55 million.

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 March 5, 2021, the NHI Group sold the Essentia trademark to a Nestlé Group affiliate for its provisional fair value of $278 million, in consideration thereof, the NHI Group had a loan due from the Nestlé Group affiliate for $278 million. As of December 31, 2021, the final value of the trademark sold was $273 million with a loan due from the Nestlé Group affiliate of $273 million.

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 had a loan due from the Nestlé Group affiliate for $593 million as of December 31, 2020. During 2021, the loan due from the Nestlé Group affiliate was transferred to an affiliate within the NHI Group scope of consolidation.

Royalties to Nestlé Group
The NHI Group is granted use in the United States of licensed brands and other intellectual property and obtains technical assistance from a Nestlé Group affiliated company via a general license agreement. In 2021, the NHI Group incurred royalties of $3794 million to the Nestlé Group affiliated company (2020: $2524 million).

17. Events after the balance sheet date

The Company was not aware of any specific events or transactions, except for noted below, occurring after December 31, 2021 and up to March 17, 2022, that could have a material impact on the presentation of the accompanying consolidated financial statements.

Following the military escalation of the situation in Ukraine in late February 2022, certain countries announced sanctions relating to Russia and Belarus, with new designations of individuals and Russian and Belarusian entities.

Due to the growing geopolitical tensions, since February 2022, there has been a significant increase in volatility on the commodities and currency markets, as well as a significant depreciation of the ruble against the US dollar and the Euro.

Despite the uncertainty of the situation, the Company regards these events as non-adjusting events after the reporting period, the quantitative effect of which cannot be estimated at the moment with a sufficient degree of confidence. The Company will continue to monitor the areas of risk for material changes.