Good food, Good life

NHI Group

Half-Yearly Financial Report
June 30, 2022 – Unaudited

Management Report

Nestlé Holdings, Inc. ("NHI") (hereinafter, together with its subsidiaries, referred to as the "NHI Group") incorporated in the State of Delaware, United States, is a wholly owned subsidiary of NIMCO US, Inc., which is an indirect wholly owned subsidiary of Nestlé S.A., incorporated in Switzerland, which is the holding company of the Nestlé Group of companies (hereinafter, referred to as the "Nestlé Group"). NHI is the holding company for Nestlé S.A.'s principal operating subsidiaries in the United States, 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	January-June 2022	January-June 2021	Change
Sales	**13 964**	**12 529**	**11.5%**
Cost of goods sold	(8 259)	(7 118)	16.0%
as a percentage of sales	(59.1%)	(56.8%)	
Underlying Trading operating profit	773	904	(14.5%)
as a percentage of sales	5.5%	7.2%	
Trading operating profit	591	890	(33.6%)
as a percentage of sales	4.2%	7.1%	
Net financial expenses	(116)	(86)	34.9%
Taxes	(193)	134	
Profit for the period attributable to shareholders of the parent (Net profit)	17	777	(97.8%)
as a percentage of sales	0.1%	6.2%	
Operating cash flow	(480)	100	
as a percentage of sales	(3.4%)	0.8%	
Capital additions	(888)	(658)	35.0%
as a percentage of sales	(6.4%)	(5.3%)	

Sales
The consolidated sales were $14.0 billion and $12.5 billion, for the six months ending on June 30, 2022 and 2021, respectively. NHI Group continues to deliver year on year improvement in sales; the main factors per segment are as follows:

- **Nestlé USA Brands** sales were $5.6 billion and $5.2 billion (+7.6%) for the six months ending on June 30, 2022 and 2021, respectively. Waters witnessed a healthy growth driven by volume recovery. Beverages, including Liquid Creamers and Nesquik Ready-To-Drink, increased due to both distribution gains and velocity. These increases were partially offset by decreases in sales in Prepared Foods driven by capacity constraints limiting shipments.
- **PetCare** sales were $5.5 billion and $4.8 billion (+14.7%) for the six months ending on June 30, 2022, and 2021, respectively. PetCare experienced a strong demand for premium brands specifically Purina Pro Plan, Purina ONE, and Fancy Feast, helped by continued innovation such as Purina ONE Microbiome Balance.
- **Other businesses** sales were $2.9 billion and $2.5 billion (+13.1%) for the six months ending on June 30, 2022, and 2021, respectively. The increase in sales was mainly contributed by the strong performance of the Nestlé Nutrition business and Nestlé Professional, primarily driven by the pandemic recovery of the out of home channel, namely restaurants, deli, healthcare, and universities.

In addition, the list price increases taken across the portfolio to partly offset the input cost inflation, contributed to the overall sales growth.

Profitability
Underlying trading operating profit was $773 million and $904 million for the six months ending on June 30, 2022, and 2021, which equaled 5.5% and 7.2% of the sales for each period, respectively. The decrease was attributed mainly due to continued high input cost of commodities, higher fixed distribution expenses driven by energy costs, partially offset by lower marketing, general, and administrative expenses. The NHI Group accelerated actions on cost saving initiatives and operational efficiencies while taking appropriate price increases.

Cost of goods sold were $8.3 billion and $7.1 billion for the six months ending on June 30, 2022, and 2021, which equaled 59.1% and 56.8% of sales for each period, respectively. The increase in costs was driven by higher input costs, unfavorable product mix, and continued supply chain disruptions. The NHI Group took list price increases to mitigate the input cost inflation throughout the period.

Distribution expenses were $1.5 billion and $1.3 billion for the six months ending on June 30, 2022, and 2021, which equaled 10.7% and 10.0% of sales for each period, respectively. The increase was mainly attributed to increased freight and transportation costs driven by high inflation and energy costs.

Marketing, general, and administrative expenses were $1.9 billion and $2.0 billion for the six months ending on June 30, 2022, and 2021, which equaled 13.5% and 15.6% of sales for each period, respectively. The decrease was primarily driven by enhanced cost control measures, rationalization of marketing spends in view of continuing supply chain challenges coupled with better absorption of costs contributed by higher sales.

Net other trading expenses were $182.8 million and $15.0 million for the six months ending on June 30, 2022, and 2021 respectively. This is primarily due to increases in the impairment of assets, restructuring costs, onerous contracts and net result on company owned Life Insurance policies with mark to market losses.

Net Profit Margin – Other Items of Note

The net profit was $16.6 million as compared to $772.5 million for the six months ending on June 30, 2022, and 2021 respectively. The decrease in profit for the six months ended June 2022 was driven by an impairment of goodwill and other one-off items, while the results of the comparative period ended June 2021 were positively impacted due to the reduction in tax expense related to a decrease in prior year taxes.

Cash Flow

Operating cash flow was -$480.0 million and $100.0 million for the six months ending on June 30, 2022, and 2021 respectively, largely due to movements in working capital including build up of inventories amidst supply chain disturbances.

Outlook

The NHI Group is committed to supporting the Nestlé Group in achieving its financial objectives including continued increase in organic sales growth, underlying trading operating margin, and capital efficiency.

Responsibility Statement

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

(a) the Condensed Unaudited Interim Financial Statements of the NHI Group for the six-month period ended 30 June 2022, which have been prepared in accordance with IAS 34 - Interim Financial Reporting as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of NHI, or the undertakings included in the consolidation taken as a whole as required by DTR 4.2.4 R; and under article 4 (3) of the Luxembourg law of 11 January 2008 on transparency requirements for issuers, as amended (the "Transparency Law"); and

(b) the interim management report includes a fair review of the information required by DTR 4.2.7 R and under article 4 (4) of the Transparency Law.

August 26, 2022

Review Report of Independent Auditors

The Board of Directors
Nestlé Holdings, Inc.:

Results of Review of Interim Financial Information

We have reviewed the condensed consolidated financial statements of Nestlé Holdings, Inc. and subsidiaries (NHI Group), which comprise the consolidated balance sheet as of June 30, 2022, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for the six-month periods ended June 30, 2022 and 2021, and the related notes (collectively referred to as the "interim financial information").

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed interim financial information for it to be in accordance with International Financial Reporting Standards.

Basis for Review Results

We conducted our reviews in accordance with auditing standards generally accepted in the United States of America (GAAS) applicable to reviews of interim financial information and the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of condensed interim financial information is substantially less in scope than an audit conducted in accordance with GAAS and International Standards on Auditing, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. We are required to be independent of the NHI Group and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our review. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

Responsibilities of Management for the Interim Financial Information

Management is responsible for the preparation and fair presentation of the condensed interim financial information in accordance with International Financial Reporting Standards and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of interim financial information that is free from material misstatement, whether due to fraud or error.

Report on Condensed Balance Sheet as of December 31, 2021

We have previously audited, in accordance with auditing standards generally accepted in the United States of America and the International Standards on Auditing, the consolidated balance sheet as of December 31, 2021, and the related consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 17, 2022. In our opinion, the accompanying condensed consolidated balance sheet of the NHI Group as of December 31, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

/s/ Ernst & Young LLP

Tysons, Virginia
August 26, 2022

Consolidated unaudited income statement for the six months ending June 30, 2022

In millions of Dollars	Notes	January-June 2022	January-June 2021
Sales	3	**13 964**	**12 529**
Cost of goods sold		(8 259)	(7 118)
Distribution expenses		(1 497)	(1 258)
Marketing and administrative expenses		(1 889)	(1 955)
Royalties to affiliated company	11	(1 546)	(1 293)
Other trading income	5	54	33
Other trading expenses	5	(236)	(48)
Trading operating profit	3	**591**	**890**
Other operating income	5	88	35
Other operating expenses	5	(335)	(200)
Operating profit	3	**344**	**725**
Financial income		255	223
Financial expense		(371)	(309)
Profit before taxes and associates	3	**228**	**639**
Taxes		(193)	134
Loss from associates		(18)	—
Profit for the period		**17**	**773**
of which attributable to non-controlling interests		—	(4)
of which attributable to shareholders of the parent (Net profit)		17	777

Consolidated unaudited statement of comprehensive income for the six months ending June 30, 2022

In millions of Dollars	January-June 2022	January-June 2021
Profit for the period recognized in the income statement	**17**	**773**
Changes in cash flow hedge and cost of hedge reserves, net of taxes	2	44
Items that are or may be reclassified subsequently to the income statement	2	44
Remeasurement of defined benefit plans, net of taxes	43	43
Items that will never be reclassified to the income statement	43	43
Other comprehensive income for the period	**45**	**87**
Total comprehensive income for the period	**62**	**860**
of which attributable to non-controlling interests	—	—
of which attributable to shareholders of the parent	62	860

Consolidated unaudited balance sheet as at June 30, 2022

In millions of Dollars	Notes	June 30, 2022	December 31, 2021
Assets			
Current assets			
Cash and cash equivalents		403	493
Short-term investments		17	3 212
Inventories		3 689	3 056
Trade and other receivables		2 529	2 654
Loans to parent and affiliates	11	24 754	20 947
Prepayments and accrued income		74	57
Derivative assets		58	42
Assets held for sale		99	—
Total current assets		**31 623**	**30 461**
Non-current assets			
Property, plant and equipment		8 387	8 178
Goodwill	6	14 834	15 110
Intangible assets		4 603	4 619
Investments in associates		—	18
Financial assets		1 249	1 350
Employee benefits assets		126	201
Loans to parent and affiliates	11	1 000	1 000
Total non-current assets		**30 199**	**30 476**
Total assets		**61 822**	**60 937**

In millions of Dollars	Notes	June 30, 2022	December 31, 2021
Liabilities and equity			
Current liabilities			
Financial debt		4 901	2 764
Derivative liabilities		5	126
Trade and other payables		3 741	4 581
Loans from affiliates	11	2 588	3 068
Accruals and deferred income		1 880	2 242
Provisions		136	104
Current income tax liabilities		449	404
Liabilities directly associated with assets held for sale		5	—
Total current liabilities		**13 705**	**13 289**
Non-current liabilities			
Financial debt		22 500	22 329
Derivative liabilities		485	—
Employee benefits liabilities		1 419	1 736
Provisions		68	55
Deferred tax liabilities		1 119	1 029
Other payables		10	41
Total non-current liabilities		**25 601**	**25 190**
Total liabilities		**39 306**	**38 479**
Equity			
Additional paid-in capital		5 680	5 680
Other equity reserves		(900)	(945)
Retained earnings		17 736	17 723
Total equity attributable to shareholders of the parent		**22 516**	**22 458**
Total equity		**22 516**	**22 458**
Total liabilities and equity		**61 822**	**60 937**

Consolidated unaudited cash flow statement for the six months ending June 30, 2022

In millions of Dollars	Notes	January-June 2022	January-June 2021
Operating activities			
Operating profit	7	344	725
Depreciation and amortization		399	371
Impairment		313	2
Net result on disposal of businesses	2	4	15
Other non-cash items of income and expense		79	(45)
Cash flow before changes in operating assets and liabilities	7	**1 139**	**1 068**
Decrease/(increase) in working capital		(1 150)	(693)
Variation of other operating assets and liabilities		(301)	47
Cash generated from/(used in) operations		**(312)**	**422**
Interest paid		(94)	(198)
Taxes paid		(74)	(124)
Operating cash flow		**(480)**	**100**
Investing activities			
Capital expenditures		(888)	(658)
Expenditures on intangible assets		(32)	(27)
Acquisition of businesses	2	(20)	(703)
Disposal of businesses	2	2	(9)
(Investments) in associates and joint ventures		—	(62)
Inflows/(outflows) from short-term treasury investments		3 195	(1 304)
Other investing activities		18	65
Investing cash flow		**2 275**	**(2 698)**
Financing activities			
Acquisition of non-controlling interests		(184)	—
Loans from/(to) parent and affiliates, net		(4 287)	3 232
Inflows from bonds and other long term financial debt		1 177	1 387
Outflows from bonds, lease liabilities and other long term financial debt		(1 106)	(1 314)
Inflows/(outflows) from short term debt		2 515	(584)
Financing cash flow		**(1 885)**	**2 721**
Increase/(decrease) in cash and cash equivalents		**(90)**	**123**
Cash and cash equivalents at beginning of period		493	350
Cash and cash equivalents at end of period		**403**	**473**

Consolidated unaudited statement of changes in equity for the six months ending June 30, 2022

In millions of Dollars

	Share capital	Additional paid-in capital	Other equity reserves	Retained earnings	**Total equity attributable to shareholders of the parent**	Non-controlling interests	**Total equity**
Equity as at January 1, 2021	**—**	**5 705**	**(1 166)**	**17 030**	**21 569**	**42**	**21 611**
Profit for the period	—	—	—	777	777	(4)	773
Other comprehensive income/(loss) for the period	—	—	87	—	87	—	87
Total comprehensive income/(loss) for the period	**—**	**—**	**87**	**777**	**864**	**(4)**	**860**
Changes in non-controlling interest	—	—	—	(34)	(34)	—	(34)
Equity as at June 30, 2021	**—**	**5 705**	**(1 079)**	**17 773**	**22 399**	**38**	**22 437**
Equity as at January 1, 2022	**—**	**5 680**	**(945)**	**17 723**	**22 458**	**—**	**22 458**
Profit for the period	—	—	—	17	17	—	17
Other comprehensive income/(loss) for the period	—	—	45	—	45	—	45
Total comprehensive income/(loss) for the period	**—**	**—**	**45**	**17**	**62**	**—**	**62**
Other movements in equity for the period	—	—	—	(4)	(4)	—	(4)
Equity as at June 30, 2022	**—**	**5 680**	**(900)**	**17 736**	**22 516**	**—**	**22 516**

Notes to the condensed unaudited interim financial statements

1. Accounting Policies

Basis of Preparation
These Condensed Interim Financial Statements are the unaudited Condensed Interim Consolidated Financial Statements (hereafter "the Condensed Interim Financial Statements") of Nestlé Holdings Inc. ("NHI") (hereinafter, together with its subsidiaries, referred to as the "NHI Group") for the six month period ending June 30, 2022. They have been prepared in accordance with International Accounting Standard (IAS) 34 - Interim Financial Reporting, and should be read in conjunction with NHI's Consolidated Financial Statements for the year ending December 31, 2021.

The accounting conventions and accounting policies are the same as those applied in NHI's Consolidated Financial Statements for the year ending December 31, 2021 (as described in Note 1 and within the relevant notes) except for the changes in accounting standards mentioned below.

The preparation of NHI's Condensed Interim Financial Statements requires management to exercise judgment and to make estimates and assumptions that affect the application of policies, reported amounts of revenues, expenses, assets, liabilities, and disclosures. The key sources of estimation uncertainty within these Condensed Interim Financial Statements remain the same as those applied to NHI's Consolidated Financial Statements for the year ending December 31, 2021.

Changes in accounting standards
Several amendments apply for the first time in 2022 including among others, Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16), Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37), Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) and Fees in the "10 per cent" Test for Derecognition of Financial Liabilities (Amendment to IFRS 9). These amendments had no material impact on the Condensed Interim Financial Statements.

2. Scope of consolidation, acquisitions and disposals of businesses

2.1 Modification of the scope of consolidation

Acquisitions

There were no acquisitions during the six months ended June 30, 2022.

During the interim period 2021, the only acquisition and cash outflows were related to the acquisition of Essentia Water.

Disposals

There were no significant disposals or associated cash flows during the six months ended June 30, 2022 or the comparative interim period.

2.2 Acquisitions of businesses

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

In millions of Dollars	2022	2021
	Total	Total (a)
Property, plant and equipment	—	7
Intangible assets	—	296
Accounts receivable, inventories and other assets	—	28
Financial Debt	—	(1)
Other liabilities	—	(25)
Fair value of identifiable net assets	**—**	**305**

(a) Related mainly to Essentia Water acquisition.

The goodwill arising on acquisitions and the cash outflow from the prior period:

In millions of Dollars	2022	2021
	Total	Total (a)
Cash outflow on acquisitions	—	703
Subtotal	—	703
Fair value of identifiable net (assets)/liabilities	—	(305)
Goodwill	**—**	**398**

(a) Related mainly to Essentia Water acquisition.

In millions of Dollars	2022	2021
	Total	Total (a)
Fair value of consideration transferred	—	704
Cash and cash equivalents acquired	—	(1)
Payment of consideration payable on prior years acquisitions	20	—
Cash outflow on acquisitions	**20**	**703**

(a) Related mainly to Essentia Water acquisition.

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 offered in the United States. 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 NHI Group's expertise and research and development. This goodwill is expected to be deductible for tax purposes.

2.3 Disposals of businesses

There were no significant disposals during the first six months ended June 2022 and June 2021.

In millions of Dollars	January–June 2022 Total	January–June 2021 Total
Property, plant and equipment	1	—
Goodwill and intangible assets	3	—
Inventories	5	9
Other assets	—	3
Other liabilities	—	(1)
Net assets disposed of	**9**	**11**
Profit/(loss) on disposals, net of disposal costs and impairments of assets held for sale	(4)	(15)
Total disposal consideration, net of disposal costs	**5**	**(4)**
Consideration receivable	(3)	(4)
Receipt of consideration receivable on prior years' disposals	—	(1)
Cash (outflow) inflow on disposals, net of disposal costs	**2**	**(9)**

3. Analyses by segment
3.1 Operating segments

Revenue and results

In millions of Dollars				January-June 2022
	Nestlé USA Brands [a]	PetCare	Other [a]	**Total**
Sales	5 595	5 457	2 912	**13 964**
Underlying Trading operating profit [b]	407	375	(9)	**773**
Trading operating profit/(loss) [c]	321	307	(37)	**591**
Net other trading income/(expenses) [d]	(85)	(68)	(29)	**(182)**
Of which impairment of property, plant and equipment	(34)	(4)	—	**(38)**
Of which restructuring costs	(9)	(43)	9	**(43)**
Depreciation and amortization	(141)	(153)	(104)	**(398)**

				January-June 2021
	Nestlé USA Brands [a]	PetCare	Other [a]	**Total**
Sales	5 198	4 756	2 575	**12 529**
Underlying Trading operating profit [b]	465	433	6	**904**
Trading operating profit [c]	452	430	8	**890**
Net other trading income/(expenses) [d]	(14)	(3)	2	**(15)**
Of which impairment of property, plant and equipment	(3)	—	1	**(2)**
Of which restructuring costs	(6)	—	2	**(4)**
Depreciation and amortization	(138)	(144)	(89)	**(371)**

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

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

In millions of Dollars	January-June 2022	January-June 2021
Underlying Trading operating profit as per Note 3.1	**773**	**904**
Net other trading income/(expenses) as per Note 5.1	(182)	(15)
Trading operating profit as per Note 3.1	**591**	**890**
Net other operating income/(expenses) as per Note 5.2	(247)	(165)
Operating profit	**344**	**725**
Net financial expense	(116)	(86)
Profit before taxes and associates	**228**	**639**

4. Seasonality

Seasonal evolutions in the Nestlé USA brands segment, particularly in the second half of the year during the holiday season, may result in lower sales and trading operating margin in the first half of the year relative to the full year.

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

5.1 Net other trading income/(expenses)

In millions of Dollars	January-June 2022	January-June 2021
Result on deferred compensation	28	—
Miscellaneous trading income	26	33
Other trading income	**54**	**33**
Restructuring costs	(43)	(4)
Impairment of property, plant and equipment and intangible assets	(38)	(2)
Litigation and onerous contracts	(44)	(5)
Result on deferred compensation	—	(21)
Miscellaneous trading expenses	(111)	(16)
Other trading expenses	**(236)**	**(48)**
Net other trading income/(expenses)	**(182)**	**(15)**

5.2 Net other operating income/(expenses)

In millions of Dollars	January-June 2022	January-June 2021
Re-measurement of contingent consideration	18	—
Miscellaneous operating income	70	35
Other operating income	**88**	**35**
Loss on disposal of businesses	(4)	(15)
Miscellaneous operating expenses	(56)	(185)
Impairment of goodwill [(a)]	(275)	—
Other operating expenses	**(335)**	**(200)**
Net other operating income/(expense)	**(247)**	**(165)**

(a) Related mainly to Freshly items, see Note 6.

6. Impairment of goodwill

The impairment charge of goodwill during the period ended June 30, 2022 relates mainly to the Goodwill associated with the Freshly CGU, which is included in "Other" segments. Further deterioration in market conditions resulted in sales and the operating profit delivering well below projections during the first half of 2022. Acquisition of customers continues to be a challenge due to regulatory changes, resulting in lower performance expectations during 2022 and beyond. Consequently, a goodwill impairment charge amounting to $241 million has been recognized for the period ended June 30, 2022 in net other operating expenses of the consolidated unaudited income statement. The recoverable amount after impairment is $71 million.

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. The fair value (categorized within Level 3 of the fair value hierarchy) was determined using a scenario-based approach which best reflects the characteristics of the value of the CGU.

7. Cash flow before changes in operating assets and liabilities

In millions of Dollars	January–June 2022	January–June 2021
Profit for the period	**17**	**773**
Loss from associates	18	—
Taxes	193	(134)
Financial income	(255)	(223)
Financial expense	371	309
Operating profit	**344**	**725**
Depreciation of property, plant and equipment	360	338
Impairment of property, plant and equipment	38	2
Amortization of intangible assets	38	33
Impairment of goodwill	275	—
Net result on disposal of businesses	4	15
Net result on disposal of assets	6	(11)
Non-cash items in financial assets and liabilities	74	(34)
Non-cash items of income and expense	**795**	**343**
Cash flow before changes in operating assets and liabilities	**1 139**	**1 068**

8. Equity

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

9. Fair value of financial instruments

In millions of Dollars	June 30, 2022	December 31, 2021
Derivative assets	55	39
Short-term investments	—	3 200
Other financial assets	2	2
Derivative liabilities	(5)	—
Prices quoted in active markets (Level 1)	**52**	**3 241**
Derivative assets	3	3
Bonds and debt funds	322	340
Equity and equity funds	277	348
Investments in life insurance company general accounts	582	595
Derivative liabilities	(485)	(126)
Valuation techniques based on observable market data (Level 2)	**699**	**1 160**
Financial assets	24	24
Financial liabilities [(a)]	—	(25)
Valuation techniques based on unobservable input (Level 3)	**24**	**(1)**
Total financial instruments at fair value	**775**	**4 400**

(a) Related to a contingent consideration re-measurement in 2021 and 2022 for a 2020 acquisition.

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.
- 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 sufficientreliability, the NHI Group carries such instruments at cost less impairment, if applicable.

There have been no significant transfers between the different hierarchy levels in the 2022 and the 2021 interim periods.

Carrying amount and fair value

As of June 30, 2022, the carrying amount of bonds issued is $23.2 billion (December 31, 2021: $23.4 billion), compared to a fair value of $21.5 billion (December 31, 2021: $ 24.3 billion). This fair value is categorized as Level 2, measured on the basis of quoted prices. For all other financial assets and liabilities, the carrying amount is a reasonable approximation of the fair value.

10. Bonds

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

In millions of Dollars					January-June 2022
	Face value	Coupon	Effective interest rate	Years of issue/ maturity	Amount
New issues (a)					
	GBP 300	2.13%	2.25%	2022-2027	394
	GBP 600	2.50%	2.53%	2022-2032	788
Total new issues					**1 182**
Repayments					
	USD 650	2.38%	2.50%	2017-2022	(650)
	USD 300	2.25%	2.35%	2017-2022	(300)
	USD 79	8.63%	8.64%	1992-2022	(79)
Total repayments					**(1 029)**

(a) Subject to derivatives that create debts in USD.

11. Transactions with related parties

In millions of Dollars	June 30, 2022	December 31, 2021
Loans to NIMCO US, Inc. (Parent) and NUSHI (NIMCO Parent):		
At January 1	17 596	14 963
Loans granted during the period	195	2 937
Loan repayments	—	(302)
Adjustments due to scope change	—	(2)
At June 30 / December 31	**17 791**	**17 596**
Loans to affiliates:		
At January 1	4 351	6 105
Loans granted during the period	3 793	2 185
Loan repayments	(181)	(3 715)
Adjustments due to scope change	—	(224)
At June 30 / December 31	**7 963**	**4 351**
Total loans to parent, NUSHI and affiliates:	**25 754**	**21 947**
of which current	24 754	20 947
of which non-current	1 000	1 000
Loans from affiliates:		
At January 1	3 068	442
Loans received during the period	10	3 047
Loan repayments	(490)	(421)
Total loans from affiliates at June 30 / December 31	**2 588**	**3 068**

Royalties to Nestlé Group
The NHI Group and its subsidiaries are granted use in the United States of licensed brands and obtain technical assistance from a Nestlé Group affiliated company via a general license agreement. The royalties to Nestlé Group are paid in accordance with the approved general license agreement.

12. Impacts of the war in Ukraine

Following the outbreak of the war in Ukraine in late February 2022, several countries imposed sanctions on Russia, Belarus, and certain regions in Ukraine. There has been an abrupt change in the geopolitical situation, with significant uncertainty about the duration of the conflict, changing the scope of sanctions and retaliation actions including new laws.

The war has also contributed to an increase in volatility in currency markets, energy prices, raw material and other input costs, as well as supply chain tensions and an increase of inflation in many countries. Risks related to cybersecurity, potential additional sanctions and other regulations have increased.

The NHI Group has no significant trading or financing relationships with entities operating in Russia or Ukraine. The pervasive impact of the war on the global economic conditions on key judgements and significant estimates as detailed on page 20 of the Consolidated Financial Statements of the NHI Group 2021 has been considered. The NHI Group will continue to monitor the areas of increased risk for material changes.

13. Events after the Balance Sheet Date

The NHI Group was not aware of specific events or transactions occurring after June 30, 2022, and up to August 26, 2022 that would have a material impact on the presentation of the accompanying condensed interim financial statements.