Nestlé Good food, Good life

NHI Group

Annual Financial Report
December 31, 2022

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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 international markets.

Key Figures

In millions of Dollars

	2022	2021	Change
Sales	**29 848**	**26 945**	**10.8%**
Cost of goods sold	(17 490)	(15 303)	14.3%
as a percentage of sales	(58.6%)	(56.8%)	
Underlying Trading operating profit	2 466	1 295	90.4%
as a percentage of sales	8.3%	4.8%	
Trading operating profit	2 067	1 100	87.9%
as a percentage of sales	6.9%	4.1%	
Net financial expenses	(114)	(174)	(34.5%)
Taxes	(461)	60	
Profit for the period attributable to shareholders of the parent (Net profit)	1 127	689	63.5%
as a percentage of sales	3.8%	2.6%	
Operating cash flow	1 535	2 044	(24.9%)
as a percentage of sales	5.1%	7.6%	
Capital additions	2 433	2 788	(12.7%)
as a percentage of sales	8.2%	10.3%	

The NHI Group has delivered year-over-year improvements in sales in a highly challenging macroeconomic environment. We are committed to continued execution of cost control and reduction initiatives and improved operational efficiencies through rationalization of the underlying structures. We continue to invest in our core brands, enhancing the usage of digital media. We have made significant progress towards key initiatives related to portfolio optimization including acquisitions and divestments.

Sales

For the years ended December 31, 2022 and 2021, consolidated sales totaled $29.8 billion and $26.9 billion, respectively, representing an increase of 10.8%. All segments were favorably benefited by the list price increases throughout the year to mitigate the adverse impact of higher commodity prices and steep inflation. The main factors per segment are as follows:

- **Nestlé USA Brands** sales were $12.3 billion and $11.5 billion for the years ended December 31, 2022 and 2021, respectively. The Beverages category performed well including Starbucks at-home products, liquid creamers and Nesquik Ready-to-Drink products. Premium waters experienced positive growth across both the imported international brands and Essentia. Moderate growth across the baking and frozen prepared meals categories as a result of tight supply constraints.
- **PetCare** sales were $11.5 billion and $10.0 billion for the years ended December 31, 2022 and 2021, respectively. The sales growth was driven by continued growth in premium dry dog and wet cat food brands, such as Purina Pro Plan, Fancy Feast, Friskies, and Purina ONE.
- **Other businesses** sales were $6.0 billion and $5.4 billion for the years ended December 31, 2022 and 2021, respectively. The sales increase was driven by market share recovery for baby food and the positive impact of Abbott recall for infant formula. Nestlé Professional continued to experience out-of-home recovery post easing of COVID-19 related restrictions.

Profitability

Trading operating profit was $2.1 billion and $1.1 billion for the years ended December 31, 2022 and 2021, which equaled 6.9% and 4.1% of sales for each year, respectively.

Cost of goods sold was $17.5 billion and $15.3 billion for the years ended December 31, 2022 and 2021, which equaled 58.6% and 56.8% of sales for each year, respectively. The increase in costs was driven primarily by higher input costs, freight costs, and manufacturing labor challenges.

Distribution expenses were $3.0 billion and $2.8 billion for the years ended December 31, 2022 and 2021, which equaled 9.9% and 10.4% of sales for each year, respectively. The increase was mainly attributed to higher fuel cost and was largely offset by savings and favorable product mix.

Marketing, general and administrative expenses were $3.8 billion and $3.8 billion for the years ended December 31, 2022 and 2021, which equaled 12.6% and 14.0% of sales for each year, respectively. Higher employee wages and inflationary increases were mitigated by cost optimization programs and a higher revenue base.

Royalties to affiliated company were $3.2 billion and $3.8 billion for the years ended December 31, 2022 and 2021, respectively. 2021 included a one-time payment related to prior period true ups as a result of revisions to the General Licensing Agreement.

Net other trading expenses were $399 million and $195 million for the years ended December 31, 2022 and 2021, respectively. The increase was driven by higher impairments, litigations and onerous contracts and net movement in company-owned life insurance related investments.

Net Profit Margin – Other Items of Note

The net profit was $1.1 billion as compared to $689 million for the years ended December 31, 2022 and 2021 respectively, primarily driven by an increase in operating profit, net of taxes.

Tax expense was $461 million in 2022 as compared to tax income of $60 million in 2021. Taxes increased mainly due to an increase in profit before taxes. The results of 2021 were favorably impacted by a reversal of prior years' tax provisions no longer required.

Cash Flow

Operating cash flow was $1.5 billion and $2.0 billion for the years ended December 31, 2022 and 2021, respectively. The increase in operating profit was offset by a build up of inventory to support the business growth and a one-time payment related to royalty, resulting in adverse working capital movements.

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.

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. 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 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

Rui Barbas, Chief Financial Officer, confirms that to the best of his knowledge:

(a) the Consolidated Financial Statements of the NHI Group for the annual period ended December 31, 2022, 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 Group, 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 Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

February 28, 2023

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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, 2022 and 2021, 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, 2022 and 2021, 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, 2022. This matter was 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 this matter.

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. 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.	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. 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.

Building a better
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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, in compliance 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, 2022 with relevant statutory 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 financial statements using the core taxonomy and the common rules on markups specified in in the ESEF Regulation

In our opinion, the financial statements of the NHI Group as at December 31, 2022, identified as "549300EAEU8YV8MQXP30-2022-12-31", 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

February 28, 2023

Consolidated Financial Statements

Consolidated income statement for the year ended December 31, 2022

In millions of Dollars

	Notes	2022	2021
Sales	3	**29 848**	**26 945**
Cost of goods sold		(17 490)	(15 303)
Distribution expenses		(2 950)	(2 792)
Marketing and administration expenses		(3 750)	(3 761)
Royalties to affiliated company	16	(3 192)	(3 794)
Other trading income	4	60	61
Other trading expenses	4	(459)	(256)
Trading operating profit	3	**2 067**	**1 100**
Other operating income	4	119	505
Other operating expenses	4	(466)	(803)
Operating profit		**1 720**	**802**
Financial income	5	687	480
Financial expense	5	(801)	(654)
Profit before taxes and associates		**1 606**	**628**
Taxes	13	(461)	60
Loss from associates	14	(18)	—
Profit for the year		**1 127**	**688**
of which attributable to non-controlling interests		—	(1)
of which attributable to shareholders of the parent (Net profit)		1 127	689

Consolidated statement of comprehensive income for the year ended December 31, 2022

In millions of Dollars

	Notes	2022	2021
Profit for the year recognized in the income statement		**1 127**	**688**
Changes in cash flow hedge and cost of hedge reserves, net of taxes		(13)	64
Items that are or may be reclassified subsequently to the income statement		(13)	64
Remeasurement of defined benefit plans, net of taxes	10	46	157
Items that will never be reclassified to the income statement		46	157
Other comprehensive income for the year		**33**	**221**
Total comprehensive income for the year		**1 160**	**909**
of which attributable to non-controlling interests		—	(1)
of which attributable to shareholders of the parent		1 160	910

Consolidated balance sheet as at December 31, 2022

In millions of Dollars

	Notes	2022	2021
Assets			
Current assets			
Cash and cash equivalents	12	412	493
Short-term investments	12	46	3 212
Inventories	6	3 710	3 056
Trade and other receivables	7/12	2 627	2 654
Loans to parent and affiliates	12/16	25 709	20 947
Prepayments		44	57
Derivative assets	12	25	42
Total current assets		**32 573**	**30 461**
Non-current assets			
Property, plant and equipment	8	9 434	8 178
Goodwill	9	14 773	15 110
Intangible assets	9	4 585	4 619
Investments in associates	14	—	18
Financial assets	12	1 337	1 350
Loans to parent and affiliates	12/16	1 588	1 000
Employee benefits assets	10	48	201
Total non-current assets		**31 765**	**30 476**
Total assets		**64 338**	**60 937**

In millions of Dollars

	Notes	2022	2021
Liabilities and equity			
Current liabilities			
Financial debt	12	3 064	2 764
Derivative liabilities	12	26	126
Trade and other payables	7/12	3 574	4 581
Loans from affiliates	12/16	2 565	3 068
Accruals		2 459	2 242
Provisions	11	143	104
Current income tax liabilities		566	404
Total current liabilities		**12 397**	**13 289**
Non-current liabilities			
Financial debt	12	25 087	22 329
Derivative liabilities	12	509	—
Employee benefits liabilities	10	1 413	1 736
Provisions	11	85	55
Deferred tax liabilities	13	1 217	1 029
Other payables		10	41
Total non-current liabilities		**28 321**	**25 190**
Total liabilities		**40 718**	**38 479**
Equity			
Share capital, $100 par value. Authorized, issued and outstanding 1,000 shares		—	—
Additional paid-in capital		5 680	5 680
Other reserves		(912)	(945)
Retained earnings		18 852	17 723
Total equity attributable to shareholders of the parent		**23 620**	**22 458**
Non-controlling interests		—	—
Total equity		**23 620**	**22 458**
Total liabilities and equity		**64 338**	**60 937**

Consolidated cash flow statement for the year ended December 31, 2022

In millions of Dollars	Notes	2022	2021
Operating activities			
Operating profit	15	1 720	802
Depreciation and amortization	15	807	771
Impairment	15	487	569
Net result on disposal of businesses	4	7	24
Other non-cash items of income and expense		60	(455)
Cash flow before changes in operating assets and liabilities		**3 081**	**1 711**
Decrease/(increase) in working capital	15	(1 336)	582
Variation of other operating assets and liabilities	15	56	262
Cash generated from operations		**1 801**	**2 555**
Interest paid		(905)	(825)
Interest received on loans to affiliates, net		729	480
Taxes paid		(90)	(166)
Operating cash flow		**1 535**	**2 044**
Investing activities			
Capital expenditure		(1 908)	(1 841)
Expenditure on intangible assets	9	(60)	(79)
Acquisition of businesses, net of cash acquired	2	(20)	(708)
Disposal of businesses, net of cash disposed of	2	95	(13)
Investments in associates		(49)	(61)
Inflows/(outflows) from treasury investments		3 166	(3 194)
Other investing activities		43	22
Investing cash flow		**1 267**	**(5 874)**
Financing activities			
Loans from/(to) parent and affiliates, net	16	(5 853)	1 916
Acquisition of non-controlling interest	2	(184)	—
Inflows from bonds and other long term financial debt	12	5 153	8 249
Outflows from bonds, lease liabilities and other long term financial debt	12	(1 974)	(3 048)
Outflows from short term financial debt	12	(25)	(3 144)
Financing cash flow		**(2 883)**	**3 973**
Increase/(decrease) in cash and cash equivalents		**(81)**	**143**
Cash and cash equivalents at beginning of year		493	350
Cash and cash equivalents at end of year	15	**412**	**493**

Consolidated statement of changes in equity for the year ended December 31, 2022

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, 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)
Other movements in equity for the period	—	—	—	—	—	—	—
Changes in non-controlling interests [b]	—	—	—	4	4	(33)	(29)
Capital distribution [c]	—	(25)	—	—	(25)	—	(25)
Equity as at December 31, 2021	**—**	**5 680**	**(945)**	**17 723**	**22 458**	**—**	**22 458**
Equity as at January 1, 2022	**—**	**5 680**	**(945)**	**17 723**	**22 458**	**—**	**22 458**
Profit for the year	—	—	—	1 127	1 127	—	1 127
Other comprehensive income for the year [a]	—	—	33	—	33	—	33
Total comprehensive income for the year	**—**	**—**	**33**	**1 127**	**1 160**	**—**	**1 160**
Distributions paid to non-controlling interests	—	—	—	—	—	—	—
Other movements in equity for the period	—	—	—	2	2	—	2
Changes in non-controlling interests	—	—	—	—	—	—	—
Capital distribution	—	—	—	—	—	—	—
Equity as at December 31, 2022	**—**	**5 680**	**(912)**	**18 852**	**23 620**	**—**	**23 620**

(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 2022 were authorized for issuance by NHI's directors on February 28, 2023.

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 financial statements.

Key accounting judgements, estimates and assumptions
The preparation of the Consolidated Financial Statements requires management to exercise judgment and to make estimates and assumptions that affect the application of policies, reported amounts of revenues, expenses, assets and 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. Information about potential impacts under alternative scenarios (including among others the policies aligned with the Paris ambition and Nestlé environmental commitments) on the medium and long term, aligned with the Task Force on Climate-related Financial Disclosures (TCFD) methodology, have been considered. Management believes that Financial Statements as of December 31, 2022, reflect the most reasonable view of the value of the assets and liabilities at this date. The implications for the NHI Group and the global economy of the war in Ukraine as well as potential escalations are highly uncertain, and remain difficult to predict or quantify. Actual results and outcomes could differ from the judgments and estimates taken into account in these Consolidated Financial Statements.

Those areas that involved a higher degree of judgment or uncertainty are explained further in the relevant Notes, including:

- assessment of control and estimating the fair value of net assets acquired in business combinations (see Note 2);
- recognition and estimation of revenue (see Note 3);
- presentation of additional line items and subtotals in the income statement (see Note 4);
- identification of a lease and lease term (see Note 8);
- identification of cash generating units (CGUs) and estimation of recoverable amount for
- impairment tests (see Note 9);
- assessment of useful lives of intangible assets, including assessment as finite or indefinite (see Note 9);
- measurement of employee benefit obligations (see Note 10);
- recognition and measurement of provisions (see Note 11);
- estimation of current and deferred taxes, including uncertain tax positions (see Note 13).

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 income statement, except when deferred in Other comprehensive income as qualifying cash flow hedges.

Expenses

Operating expenses are presented in the income statement using the function of expense method, as this is the method used by management to analyze performance and is commonly used in the consumer goods industry, and thus provides more relevant information.

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. It includes the cost of royalties due to third party licensors for the use of their intellectual property, which are accrued in accordance with the respective agreement. Cost of goods sold also includes maintenance and depreciation of equipment used in the sales process like coffee machines.

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 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

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). None of these had a material impact on the NHI Financial Statements.

Changes in IFRS that may affect the NHI Group after December 31, 2022

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, 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.

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 income statement.

2.1 Modification of the scope of consolidation

Acquisitions

There were no acquisitions in 2022 and correspondingly, no related cash outflows.

During 2021 the only acquisition and associated cash outflows were related to the acquisition of Essentia Water.

Disposals

There were no significant disposals during 2022 and 2021. Among other non-significant disposals, are Freshly (a healthy prepared meals business) and the Infant Formula Business. Before each disposal, impairment charges have been recorded during the year, in Other trading and operating expenses (see Note 4).

Cash inflows during 2022 and 2021 are related mainly to these 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

	2022	2021
	Total	**Total** [a]
Inventories, prepaid inventories and other assets	—	25
Property, plant and equipment	—	22
Intangible assets	—	310
Financial debt	—	(20)
Other liabilities	—	(20)
Deferred taxes	—	(3)
Fair value of identifiable net assets	**—**	**314**

(a) Related mainly to Essentia Water acquisition.

The goodwill arising on acquisitions and the cash outflows are:

In millions of Dollars

	2022	2021
	Total	**Total** [a]
Fair value of consideration transferred	—	709
Subtotal	—	709
Fair value of identifiable net assets	—	(314)
Goodwill	**—**	**395**
Fair value of consideration transferred	—	709
Cash and cash equivalents acquired	—	(1)
Payment of consideration payable on prior years acquisitions	20	—
Cash outflow on acquisitions	**20**	**708**

(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. 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.

2.3 Disposals of businesses

	2022	2021
	Total	**Total** [(a)]
Cash, cash equivalents and short-term investments	3	—
Inventories	37	9
Other assets	4	3
Deferred tax assets	8	—
Property, plant and equipment	81	—
Goodwill and intangible assets	14	—
Financial liabilities	(16)	—
Other liabilities	(26)	(1)
Net assets disposed of	**105**	**11**
Loss on disposals, net of disposal costs	(7)	(24)
Total disposal consideration, net of disposal costs	**98**	**(13)**
Cash and cash equivalents disposed of	(3)	—
Cash inflow/(outflow) on disposals, net of disposal costs	**95**	**(13)**

(a) Relates to true-up of previous disposals.

2.4 Acquisitions of non-controlling interests

Acquisitions and disposals 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. The same principle is applied to disposals of shares to non-controlling interests.

In 2022, there were no transactions with non-controlling interests.

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 (settled in 2022). 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 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, and uses the assets directly allocated to the segments to determine if a segment is reportable.

Invested capital comprises property, plant and equipment, trade receivables and some other receivables, assets held for sale, inventories, prepayments, less trade payables, accruals and some other payables, liabilities directly associated with assets held for sale, and non-current other payables.

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, allocations 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 receivable 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.

The NHI Group does not generally accept sales returns, 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

2022	Brands (a)	PetCare	Other (a)	Total
Sales	12 323	11 464	6 061	**29 848**
Underlying Trading operating profit (b)	1 384	1 056	26	**2 466**
Trading operating profit/(loss) (c)	1 239	973	(145)	**2 067**
Net other trading expenses (d) as per Note 4.1	(145)	(84)	(170)	**(399)**
Of which impairment of property, plant and equipment	(70)	(17)	(64)	**(151)**
Of which restructuring costs	(17)	(31)	(4)	**(52)**
Depreciation and amortization	(284)	(320)	(203)	**(807)**

2021	Brands (a)	PetCare	Other (a)	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 (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)**

(a) Nestlé USA Brands primarily consists of Nestlé Coffee Partners, beverages, prepared foods, snacks, and other food products. Other primarily consists of Nutrition, Nestlé Professional, Nespresso, and Nestlé Health Science, which do not meet the criteria for separate disclosure.
(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

2022	Brands (a)	PetCare	Other (a)	Total
Invested capital	2 661	5 715	1 573	**9 949**
Goodwill and intangible assets	9 040	8 877	1 441	**19 358**
Impairment of goodwill	—	—	(336)	**(336)**
Capital additions	540	1 433	460	**2 433**

2021	Brands (a)	PetCare	Other (a)	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**

(a) Nestlé USA Brands primarily consists of Nestlé Coffee Partners, beverages, prepared foods, snacks, and other food products. Other primarily consists of Nutrition, Nestlé Professional, Nespresso, and Nestlé Health Science, which do not meet the criteria for separate disclosure.

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

In millions of Dollars

	2022	2021
Underlying Trading operating profit [a] as per Note 3.1	**2 466**	**1 295**
Net other trading expenses as per Note 4.1	(399)	(195)
Trading operating profit as per Note 3.1	**2 067**	**1 100**
Net other operating expenses	(347)	(298)
Operating profit	**1 720**	**802**
Net financial expense	(114)	(174)
Profit before taxes and associates	**1 606**	**628**

(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

	2022	2021
Invested capital as per Note 3.1	9 949	7 563
Liabilities included in invested capital	5 957	7 058
Subtotal	15 906	14 621
Intangible assets and goodwill as per Note 3.1	19 358	19 729
Other assets	29 074	26 587
Total assets	**64 338**	**60 937**

3.3 Customers

The NHI Group has one customer contributing 20% to the total sales in both years across all segments.

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, results 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	2022	2021
Return on company-owned life insurance	—	53
Reversal of unused restructuring provisions	—	7
Result on deferred compensation	37	—
Miscellaneous trading income	23	1
Other trading income	**60**	**61**
Return on company-owned life insurance	(77)	—
Restructuring costs	(52)	(56)
Impairment of property, plant and equipment and intangible assets	(151)	(75)
Litigations and onerous contracts [(a)]	(146)	(61)
Result on deferred compensation	—	(51)
Miscellaneous trading expenses	(33)	(13)
Other trading expenses	**(459)**	**(256)**
Total net other trading expenses	**(399)**	**(195)**

(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	2022	2021
Re-measurement of contingent consideration and other compensation liabilities [(a)]	22	378
Miscellaneous operating income [(b)]	97	127
Other operating income	**119**	**505**
Loss on disposal of businesses [(c)]	(7)	31
Impairment of goodwill [(d)]	(336)	(494)
Miscellaneous operating expenses [(b)]	(123)	(340)
Other operating expenses	**(466)**	**(803)**
Total net other operating expenses	**(347)**	**(298)**

(a) Mainly related to Freshly items.
(b) 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 and natural disasters. 2021 also included COVID-19 expenses related primarily to safety related costs (gloves, masks, cleaning and sanitizing, screening, and vaccines among others). COVID-19 costs are part of the underlying trading profit in 2022.
(c) See disposals of businesses (refer to Note 2.3).
(d) See goodwill and intangible assets (refer to Note 9).

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 (see Note 8).

In millions of Dollars	Notes	2022	2021
Interest income		666	464
Interest expense		(761)	(621)
Net financing cost of net financial debt		**(95)**	**(157)**
Interest income on defined benefit plans	10	21	16
Interest expense on defined benefit plans	10	(40)	(33)
Net interest expense on defined benefit plans		**(19)**	**(17)**
Other financial income		—	—
Net financial expenses		**(114)**	**(174)**

Interest expense on amounts due to affiliated companies, and bonds and commercial paper guarantee fees to Nestlé S.A. amounted to $131 million and $89 million in 2022 and 2021, respectively. Interest income on amounts due from parent and affiliated companies amounted to $660 million and $464 million in 2022 and 2021, 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

	2022	2021
Raw materials, work in progress and sundry supplies	1 229	845
Finished goods	2 561	2 261
Allowance for write-down to net realizable value	(80)	(50)
Total	**3 710**	**3 056**

Inventories amounting to $17 094 million (2021: $15 000 million) were recognized as an expense during the year and included in Cost of goods sold. No inventories were pledged as security for financial liabilities during 2022 and 2021.

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.

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 administration expenses.

In millions of Dollars	2022			2021		
	Gross carrying amount	Expected credit loss allowance	**Total**	Gross carrying amount	Expected credit loss allowance	**Total**
Trade receivables (not credit impaired)	2 517	(10)	2 507	2 415	(7)	**2 408**
Other receivables (not credit impaired)	117	—	117	245	—	**245**
Credit impaired trade and other receivables	4	(1)	3	2	(1)	**1**
Total	**2 638**	**(11)**	**2 627**	**2 662**	**(8)**	**2 654**

Trade receivables includes a balance from related parties for 2022: $219 million (2021: $214 million).

The five major customers represent 51% (2021: 45%) of trade and other receivables, none of them individually exceeding 25% in either year.

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	2022	2021
Due within one year		
Trade payables	3 574	4 383
Other payables	—	198
Total	**3 574**	**4 581**

Trade payables include a balance from related parties for $939 million (2021: $2 009 million).

8. Property, plant and equipment

Property, plant and equipment comprises owned and leased assets.

In millions of Dollars	2022	2021
Property, plant and equipment – owned	8 629	7 407
Right-of-use assets – leased	805	771
Total	**9 434**	**8 178**

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.

Depreciation of property, plant and equipment is allocated to the appropriate headings of expenses by function in the 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 income statement over the useful life of the related assets.

In millions of Dollars

2022

	Land and buildings	Plant and machinery	Tools, furniture, and sundry	Vehicles	Information technology equipment	Assets under Construction	Total
Net carrying amount							
At January 1, 2022	2 396	2 449	203	11	69	2 279	**7 407**
Additions [a]	60	70	97	(7)	10	1 812	**2 042**
Acquisitions through business combinations	—	—	—	—	—	—	**—**
Reclassification from assets under construction	178	365	13	—	15	(571)	**—**
Depreciation	(130)	(353)	(69)	(4)	(33)	—	**(589)**
Impairments	(38)	(84)	(4)	—	—	—	**(126)**
Disposals	(2)	(14)	(4)	—	(1)	(17)	**(38)**
Classification to held for sale and disposals of businesses	(34)	(28)	(2)	—	(1)	(2)	**(67)**
At December 31, 2022	**2 430**	**2 405**	**234**	**—**	**59**	**3 501**	**8 629**
Gross value	3 868	6 718	862	90	275	3 501	**15 314**
Accumulated depreciation and impairments	(1 438)	(4 313)	(628)	(90)	(216)	—	**(6 685)**

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**
Acquisitions through business combinations	48	8	—	—	1	—	**57**
Reclassification from assets under construction	136	378	11	11	24	(560)	**—**
Depreciation	(121)	(336)	(68)	(6)	(40)	—	**(571)**
Impairments	(1)	(6)	—	(3)	(3)	—	**(13)**
Disposals	—	(4)	(12)	—	—	—	**(16)**
Classification 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)**

(a) Including borrowing costs.

There were $1 479 million and $909 million in commitments for future capital expenditures as of December 31, 2022 and 2021, 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, 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. Planned retirement of property, plant and equipment due to the transition to a low carbon economy, Nestlé's commitments regarding recyclable or reusable packaging, reduction to virgin plastic and Nestlé's Net Zero Roadmap on greenhouse gas emissions are also considered as triggers for impairment.

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 (see Note 4.1). As the majority of Nestlé emissions are classified in Scope 3 (i. e. indirect emissions that occur across the Nestlé's value chain and outside of the Nestlé's direct control), property, plant and equipment are not materially exposed to climate transition risks, and no other significant climate-related triggers for impairment have been identified.

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 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 $969 million at December 31, 2022 (2021: $613 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

				2022
	Land and buildings	Vehicles	Other	**Total**
Net carrying amount				
At January 1, 2022	721	21	29	771
Additions	273	23	35	331
Depreciation	(112)	(13)	(15)	(140)
Impairments, net	(25)	—	—	(25)
Classification to/from held for sale and change of scope of consolidation, net	—	—	—	—
Derecognition of sub-leased right-of-use assets and others	(129)	(3)	—	(132)
At December 31, 2022	**728**	**28**	**49**	**805**

				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**

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 $18 million (2021: $25 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 $148 million (2021: $129 million).

During the year, there was a net impairment of $25 million in relation to leases that are not likely to be used in the forseeable future considering the current and future 2 to 3 years demand and expansion needs, net of reversals of impairments for subleases executed during the period. The NHI Group continues to explore alternative avenues for impaired facilities, such as renegotiation of more favorable lease terms or subleasing.

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 (mainly 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 present. Any impairment charge is recorded in the 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 25 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 income statement under Other trading expenses.

In millions of Dollars

	2022	
	Goodwill	Intangible assets
Net carrying amount		
At January 1, 2022	15 110	4 619
Expenditure	—	60
Acquisitions through business combinations [(a)]	—	—
Amortization	—	(79)
Impairments [(b)]	(336)	—
Disposals	(1)	(3)
Classification to held for sale and disposals of businesses	—	(12)
At December 31, 2022	**14 773**	**4 585**
of which indefinite useful life [(d)]	—	4 198
At December 31, 2022		
Gross value	19 062	5 792
Accumulated amortization and impairments	(4 289)	(1 207)

	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)
Impairments [(b)]	(494)	—
Disposals [(c)]	—	(387)
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)

(a) Includes intangible assets received from common control business combinations. See Note 16.
(b) Mainly related to Freshly (refer to Note 9.1.1).
(c) Includes the sale of a trademark to a Nestlé Group affiliate. See Note 16.
(d) Of which $4 195 million (2021: $4 195 million) are perpetual rights to market, sell and distribute certain consumer and foodservice products from Starbucks Corporation 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 of goodwill during the year ended December 31, 2022 relates mainly to the Goodwill associated with the Freshly CGU, which is included in “Other” segments. Further deterioration in market conditions led to sales and operating profit well below projections during 2022 and challenges in acquisition of customers due to regulatory changes, have resulted in lower performance expectations during 2022 and beyond. The business has since been disposed of (see Note 2.1). Consequently, a goodwill impairment charge amounting to $311 million has been recognized for the year ended December 31, 2022 in net other operating expenses of the income statement using the net selling price as the highest CGU recoverable amount.

The impairment charge in 2021, related to the Freshly CGU, is included within “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 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 was recognized for the year ended December 31, 2021 in net other operating expenses of the income statement. The recoverable amount was determined based upon a fair value less costs of disposal calculation as follows:

	2021
	Freshly
Key assumptions	
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	311

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 (a)	IAIUL carrying amount (a)	Period of cash flow projections	Average annual sales growth	Annual margin evolution	Terminal growth rate	Discount rate
2022							
CGU							
PetCare	8 814	—	5 years	6.7%	Stable	2.0%	5.9%
Food	3 059	—	5 years	3.8%	Stable	2.0%	5.9%
Beverages	1 133	4 195	5 years	3.1%	Stable	2.0%	5.9%
Subtotal	13 006	4 195					
Other CGUs	1 767	3					
Total Goodwill	**14 773**	**4 198**					
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**					

(a) In millions of Dollars

For each CGU the recoverable amount is higher than its carrying amount. 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 have been projected over 5 years. They have been extrapolated using a steady terminal growth rate, as applicable for each CGU.

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 NHI Group's management consistent with the 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.
- Climate change risks, including transition and physical risks, over the medium to longer term have been taken into account in assessing the risks of the cash flows. Impacts on the underlying assumptions on future forecasts of CGUs and their portfolio strategy have been considered. Sales growth, margin evolution and terminal growth have been adjusted if necessary, considering the resilience of the CGUs to climate change risks as well as Nestlé's commitments to tackle climate change (including the Nestlé Group's "Net Zero Roadmap").
- 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 salary expenses of $2 657 million (2021: $2 499 million) and welfare expenses of $1 186 million (2021: $1 099 million) represent a total of $3 843 million (2021: $3 598 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 $49 million (2021: $112 million). Employee remuneration is allocated to the appropriate headings of expenses by function (see Note 1, section Expenses).

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 externally funded 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 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 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 Group. 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 contributions paid to the plan in 2022 amount to $64 million and expected contributions for 2023 will be approximately $89 million. In August 2022, a buyout transaction with a third party insurance company was completed and $819 million of defined benefit obligation was removed from the balance sheet. This transaction did not change the pension benefits provided to pensioners.

Post-employment medical benefits and other employee benefits

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

Multi-employer pension plans

The NHI Group 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.

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

No entity under the NHI Group 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 The NHI Group 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 multi-employer pension plans are different from single-employer plans. Assets contributed to a multi-employer 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 the NHI Group 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. In January 2023 the Central States plan received $36 billion of Special Financial Assistance ("SFA") as a result of its application to the PBGC as defined under The American Rescue Plan, passed by Congress in March 2021. The SFA will substantially improve the funded status of the Central States plan once updated funded status information that includes the SFA is published by the Central States administrators.

If an entity under the NHI Group 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. The NHI Group 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 when relevant.
- 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 generally 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. Should a review indicate that a plan needs to be changed, prior agreement with the local governing body, the regulator and, if applicable, the members, is sought before implementing plan changes.

During 2022, there were plan amendments and restructuring activities (among others risk transfers of pensioners' liabilities and medical cost sharing) leading to curtailments and settlements, individually not significant, amounting to net related settlement and negative past service costs of $6 million (2021: $7 million).

Asset-liability management and funding arrangement

Governing bodies are responsible for determining the mix of asset classes and target allocations of the NHI Group's plans with the support of investment advisors and/or local asset management firms. Periodic reviews of the asset mix are made by external parties to assess the portfolio structure adequacy. 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, considering sustainability, social and climate factors. 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

	2022			2021		
	Defined benefit retirement plans	Post employment medical benefits and other benefits	**Total**	Defined benefit retirement plans	Post employment medical benefits and other benefits	**Total**
Present value of funded obligations	2 344	—	2 344	4 147	—	**4 147**
Fair value of plan assets	(2 352)	—	(2 352)	(4 348)	—	**(4 348)**
Excess of assets over funded obligations	(8)	—	(8)	(201)	—	**(201)**
Present value of unfunded obligations	426	466	892	532	582	**1 114**
Net defined benefit liabilities	**418**	**466**	**884**	**331**	**582**	**913**
Other employee benefit liabilities			481			**622**
Net liabilities			**1 365**			**1 535**
Reflected in the balance sheet as follows:						
Employee benefit assets			(48)			**(201)**
Employee benefit liabilities			1 413			**1 736**
Net liabilities			**1 365**			**1 535**

10.2b Movement in the present value of defined benefit obligations

In millions of Dollars

	2022			2021		
	Defined benefit retirement plans	Post employment medical benefits and other benefits	**Total**	Defined benefit retirement plans	Post employment medical benefits and other benefits	**Total**
At January 1	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**
Service cost	153	9	162	176	10	**186**
of which current service cost	147	9	156	169	10	**179**
of which past service cost and losses arising from settlements	6	—	6	7	—	**7**
Interest expense	125	14	139	115	13	**128**
Actuarial losses	(940)	(105)	(1 045)	(147)	(34)	**(181)**
Benefits paid on funded defined benefit plans [(a)]	(1 194)	—	(1 194)	(366)	—	**(366)**
Benefits paid on unfunded defined benefit plans	(56)	(34)	(90)	(65)	(37)	**(102)**
Plan mergers	3	—	3	3	—	**3**
At December 31	**2 770**	**466**	**3 236**	**4 679**	**582**	**5 261**
of which funded defined benefit plans	2 344	—	2 344	4 147	—	**4 147**
of which unfunded defined benefit plans	426	466	892	532	582	**1 114**

(a) Including the buyout transaction as described in Note 10.2, section Pensions and retirement benefits.

10.2c Movement in fair value of defined benefit assets

In millions of Dollars

	2022	2021
	Defined benefit retirement plans	Defined benefit retirement plans
At January 1	4 348	4 577
Interest income	118	109
Actual return on plan assets, excluding interest income	(983)	29
Employer contributions	118	64
Benefits paid on funded/unfunded defined benefit plans [(a)]	(1 249)	(431)
At December 31	**2 352**	**4 348**

(a) Including the buyout transaction as described in Note 10.2, section Pensions and retirement benefits.

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

In millions of Dollars

	2022	2021
December 31:		
Equities	14%	23%
Debts	63%	63%
of which government debts [(a)]	38%	36%
of which corporate debts [(b)]	25%	27%
Alternative investments [(b)]	23%	14%

(a) Almost all have a quoted market price in an active market.
(b) Almost all are either not quoted or are quoted in a market which is not active.

Equities and government debts represent 52% (2021: 59%) of the plan assets. Almost all of them are quoted in an active market. Corporate debts, real estate and hedge funds represent 48% (2021: 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 income statement

In millions of Dollars

			2022			2021
	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	153	9	162	169	10	**179**
Net interest expense	5	14	19	5	12	**17**
Administration expenses	16	—	16	12	—	**12**
Defined benefit expenses	**174**	**23**	**197**	**186**	**22**	**208**
Defined contribution expenses			**129**			**120**
Total			**326**			**328**

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

	2022			2021		
	Defined benefit retirement plans	Post employment medical benefits and other benefits	**Total**	Defined benefit retirement plans	Post employment medical benefits and other benefits	**Total**
Actual return on plan assets, excluding interest income	(983)	—	(983)	29	—	**29**
Experience adjustments on plan liabilities	(50)	4	(46)	(65)	9	**(56)**
Change in demographic assumptions on plan liabilities	11	2	13	—	—	**—**
Change in financial assumptions on plan liabilities	979	99	1 078	212	25	**237**
Remeasurement of defined benefit plans - actuarial gains/(losses)	**(43)**	**105**	**62**	**176**	**34**	**210**

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

	2022	2021
Discount rates	5.4%	2.8%
Expected rates of salary increases	4.0%	3.5%
Medical cost trend rates	4.5% - 6.5%	4.5%-6.0%

10.2g Mortality tables and life expectancies

Expressed in years

	Life expectancy at age 65 for a male member currently aged 65		Life expectancy at age 65 for a female member currently aged 65	
	2022	2021	2022	2021
Mortality table				
Pri-2012	20.6	20.9	22.6	22.9

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

	2022	2021
As reported	**3 236**	**5 261**
Discount rates		
Increase of 50 basis points	3 093	4 974
Decrease of 50 basis points	3 395	5 581
Expected rates of salary increases		
Increase of 50 basis points	3 284	5 300
Decrease of 50 basis points	3 212	5 227
Medical cost trend rates		
Increase of 50 basis points	3 238	5 263
Decrease of 50 basis points	3 234	5 259
Mortality assumption		
Setting forward the tables by 1 year	3 196	5 153
Setting back the tables by 1 year	3 276	5 354

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, 2022, the weighted-average duration of the defined benefit obligation was 9.6 years (2021: 12 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 estimate 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 January 1, 2022	**53**	**22**	**16**	**68**	**159**
Provisions made during the year [(a)]	62	2	51	149	264
Amounts used	(49)	(6)	(16)	(112)	(183)
Reversal of unused amounts	(10)	—	(2)	—	(12)
At December 31, 2022	**56**	**18**	**49**	**105**	**228**
of which expected to be settled within 12 months	54	4	33	52	143

	Restructuring	Environmental	Legal	Other	Total
At January 1, 2021	**44**	**23**	**10**	**56**	**133**
Provisions made during the year [(a)]	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

(a) Including discounting of provisions.

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).

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 settlements 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. Management does not believe it is possible to make assumptions on the evolution of the cases beyond the balance sheet date.

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 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 category, 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 mitigate the credit risk exposure of the NHI Group and provide interest income. 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 months' 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 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	2022 At amortized cost (a)	2022 At fair value to income statement	2022 At fair value to Other comprehensive income	2022 Total categories	2021 At amortized cost (a)	2021 At fair value to income statement	2021 At fair value to Other comprehensive income	2021 Total categories
Cash at bank and in hand	412	—	—	**412**	493	—	—	**493**
Bonds and debt funds	—	337	—	**337**	—	3 557	93	**3 650**
Equity and equity funds	—	176	96	**272**	—	255	3	**258**
Other financial assets	182	587	5	**774**	53	595	6	**654**
Liquid assets (b) and non-current financial assets	594	1 100	101	**1 795**	546	4 407	102	**5 055**
Trade and other receivables	2 627	—	—	**2 627**	2 654	—	—	**2 654**
Loans to parent and affiliates	27 297	—	—	**27 297**	21 947	—	—	**21 947**
Derivative assets (c)	—	25	—	**25**	—	42	—	**42**
Total financial assets	**30 518**	**1 125**	**101**	**31 744**	**25 147**	**4 449**	**102**	**29 698**
				—				
Trade and other payables	(3 584)	—	—	**(3 584)**	(4 597)	(25)	—	**(4 622)**
Financial debt	(28 151)	—	—	**(28 151)**	(25 093)	—	—	**(25 093)**
Loans from affiliates	(2 565)	—	—	**(2 565)**	(3 068)	—	—	**(3 068)**
Derivative liabilities (c)	—	(535)	—	**(535)**	—	(126)	—	**(126)**
Total financial liabilities	**(34 300)**	**(535)**	**—**	**(34 835)**	**(32 758)**	**(151)**	**—**	**(32 909)**
				—				
Net financial position	**(3 782)**	**590**	**101**	**(3 091)**	**(7 611)**	**4 298**	**102**	**(3 211)**
of which at fair value	—	590	101	**691**	—	4 298	102	**4 400**

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

12.1b Fair value hierarchy of financial instruments

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

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

In millions of Dollars	2022	2021
Derivative assets	10	39
Bonds and debt funds	—	3 200
Other financial assets	2	2
Derivative liabilities	(26)	—
Prices quoted in active markets (Level 1)	**(14)**	**3 241**
Derivative assets	15	3
Bonds and debt funds	321	340
Equity and equity funds	268	348
Investments in life insurance company general accounts	586	595
Derivative liabilities	(509)	(126)
Valuation techniques based on observable market data (Level 2)	**681**	**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	**691**	**4 400**

(a) Contingent consideration on acquisition.

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

12.1c Changes in liabilities arising from financing activities

In millions of Dollars	2022	2021
At January 1	**(25 219)**	**(22 928)**
Changes in fair values	12	86
Changes arising from acquisition and disposal of businesses	17	(129)
Increase in lease liabilities	(304)	(189)
Inflows from bonds and other long term financial debt	(5 153)	(8 249)
Outflows from bonds, lease liabilities and other long term financial debt	1 974	3 048
Outflows from short term financial debt	25	3 144
Other movements	—	(2)
At December 31	**(28 648)**	**(25 219)**
of which current financial debt	3 064	(2 764)
of which non-current financial debt	25 087	(22 329)
of which derivatives hedging financial debt	497	(126)

12.1d Bonds

In millions of Dollars

	Comments	Coupon	Effective interest rate	Years of issue/ maturity	2022	2021
USD 800		2.38%	2.55%	2017-2022	—	799
USD 650		2.38%	2.50%	2017-2022	—	650
USD 300		2.25%	2.35%	2017-2022	—	300
EUR 850	(a)	0.88%	0.92%	2017-2025	904	959
CHF 550	(a)	0.25%	0.24%	2017-2027	595	602
CHF 150	(a)	0.55%	0.54%	2017-2032	162	164
USD 600		3.13%	3.28%	2018-2023	600	599
USD 1500	(b)	3.35%	3.41%	2018-2023	1 500	1 499
USD 900	(b)	3.50%	3.59%	2018-2025	898	897
USD 1250	(b)	3.63%	3.72%	2018-2028	1 244	1 243
USD 1250	(b)	3.90%	4.01%	2018-2038	1 233	1 233
USD 2100	(b)	4.00%	4.11%	2018-2048	2 062	2 062
USD 1150	(b)	0.38%	0.49%	2020-2024	1 149	1 147
USD 750	(b)	0.63%	0.77%	2020-2026	747	746
USD 1100	(b)	1.00%	1.06%	2020-2027	1 097	1 096
USD 1000	(b)	1.25%	1.37%	2020-2030	992	990
GBP 600	(a)	0.63%	0.75%	2021-2025	723	808
GBP 400	(a)	1.38%	1.46%	2021-2033	478	535
USD 300		1.13%	1.19%	2021-2026	299	299
USD 1500	(b)	0.61%	0.66%	2021-2024	1 499	1 498
USD 1000	(b)	1.50%	1.58%	2021-2028	996	995
USD 1000	(b)	1.88%	1.91%	2021-2031	997	997
USD 500	(b)	2.50%	2.55%	2021-2041	497	496
USD 500	(b)	1.15%	1.22%	2021-2027	499	498
USD 500	(b)	2.63%	2.69%	2021-2051	493	493
CAD 2000	(a)	2.19%	2.23%	2021-2029	1 476	1 571
GBP 300	(a)	2.13%	2.25%	2022-2027	360	—
GBP 600	(a)	2.50%	2.53%	2022-2032	722	—
USD 750	(b)	4.00%	4.07%	2022-2025	749	—
USD 500	(b)	4.13%	4.20%	2022-2027	498	—
USD 500	(b)	4.25%	4.31%	2022-2029	498	—
USD 1250	(b)	4.30%	4.38%	2022-2032	1 242	—
USD 1000	(b)	4.70%	4.76%	2022-2053	990	—
Other Bonds					98	179
Total carrying amount (*)					**26 297**	**23 355**
of which due within one year					2 143	1 828
of which due after one year					24 154	21 527
Fair value (*) of bonds, based on prices quoted (level 2)					23 785	24 255

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

Several bonds are hedged by currency and/or interest derivatives. The fair value of these derivatives is shown under derivative assets of $12 million (2021: $0 million) and under derivative liabilities of $509 million (2021: $126 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). The Note presents the NHI 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"), chaired by 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 the Nestlé S.A.'s financial asset and liabilities management, 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 derivatives) 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 United Kingdom, the European Union, and North America.

In millions of Dollars	2022	2021
A- and above	1 300	4 593
BBB+, BBB and BBB-	64	76
BB+ and below	13	19
Not rated [(a)]	1 031	409
	2 408	**5 097**

(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

						2022
	1st year	2nd year	3rd to 5th year	After the 5th year	Contractual amount	Carrying amount
Trade and other payables	**3 584**	**—**	**—**	**—**	**3 584**	**3 584**
Loan from affiliates	**2 565**	**—**	**—**	**—**	**2 565**	**2 565**
Commercial paper	547	—	—	—	547	547
Bonds [(a)]	2 788	3 224	8 956	18 852	33 820	26 297
Lease liabilities	175	149	386	453	1 163	1 110
Other financial debt	197	—	—	—	197	197
Other financial liabilities	—	—	—	—	—	—
Total financial debt	**3 707**	**3 373**	**9 342**	**19 305**	**35 727**	**28 151**
Financial liabilities (excluding derivatives)	**9 856**	**3 373**	**9 342**	**19 305**	**41 876**	**34 300**
Non-currency derivative assets	10	—	—	—	10	10
Non-currency derivative liabilities	(25)	(1)	—	—	(26)	(26)
Gross amount receivable from currency derivatives	107	77	2 792	2 878	5 854	4 865
Gross amount payable from currency derivatives	(164)	(136)	(3 107)	(3 207)	(6 614)	(5 359)
Net derivatives	**(72)**	**(60)**	**(315)**	**(329)**	**(776)**	**(510)**
of which derivatives under cash flow hedges	72	60	315	329	776	510

						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 [(a)]	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

(a) Bonds of $895 million (2021: $951 million) have maturities of less than three months.

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 needs through the use of currency forwards, futures, 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 2022 and 2021.

The NHI Group cannot predict the future movements in exchange rates, therefore the above VaR number neither represents actual losses nor considers the effects of favorable movements in underlying variables. Accordingly, the VaR number may only be considered indicative of future movements to the extent the historic market patterns repeat in the future.

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% (2021: 89%).

Price risk

Commodity price risk

Commodity price risk arises from transactions on the world commodity markets to secure 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 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 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 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 income statement. Ineffectiveness for hedges of foreign currency and commodity price risk may result from changes in the timing of the forecast transactions than 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 income statement at the same time as the hedged 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	2022			2021		
	Fair value assets	Fair value liabilities	Contractual or notional amounts	Fair value assets	Fair value liabilities	Contractual or notional amounts
Cash flow hedges						
Currency risk on future purchases or sales	3	—	30	—	—	20
Foreign currency and interest rate risk on net financial debt	12	509	3 111	—	125	2 537
Commodity price risk on future purchases	10	26	416	42	1	165
	25	**535**	**3 557**	**42**	**126**	**2 722**
Conditional offsets [(a)]						
Derivative assets and liabilities	(2)	(2)		(3)	(80)	
Balances after conditional offsets	**23**	**533**		**39**	**46**	

(a) Represent amounts that would be offset in case of default, insolvency or bankruptcy of counterparties.

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 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 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 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 income statement

In millions of Dollars	2022	2021
Current taxes	(296)	223
Deferred taxes	(165)	(163)
Total tax (expense)/benefit	**(461)**	**60**

13.2 Reconciliation of taxes recognized in the income statement

In millions of Dollars	2022	2021
Expected tax expense at average applicable tax rate	(413)	(157)
Tax effect on non-deductible amortization and impairment of goodwill and other intangible assets	(78)	(125)
Permanent differences on company-owned life insurance policies	(17)	16
Tax effect of non-deductible or non-taxable items	105	34
Prior years' taxes	(5)	275
Transfers from unrecognized deferred tax assets	(43)	18
Other	(10)	(1)
Tax (expense)/benefit at effective tax rate	**(461)**	**60**

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

In millions of Dollars	2022	2021
Tangible fixed assets	(9)	(37)
Goodwill and other intangible assets	(131)	(104)
Employee benefits	(68)	1
Inventories, receivables, payables, accruals, and provisions	49	25
Net operating losses	—	(35)
Other	(6)	(13)
Deferred tax expense	**(165)**	**(163)**

Taxes recognized in other comprehensive income/(loss):

In millions of Dollars	2022	2021
Tax effect relating to:		
Fair value adjustments on cash flow hedges	4	(22)
Defined benefit plan actuarial losses	(16)	(53)
Total taxes recognized	**(12)**	**(75)**

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	2022	2021
Employee benefits	366	450
Inventories, receivables, payables, accruals, and provisions	222	176
Net operating losses	20	22
Others	10	10
Total deferred tax assets	**618**	**658**

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

In millions of Dollars	2022	2021
Tangible fixed assets	678	639
Goodwill and other intangible assets	1 127	1 023
Financial instruments	2	5
Others	28	20
Total deferred tax liabilities	**1 835**	**1 687**

Deferred tax is presented as a net deferred tax liability in the 2022 consolidated balance sheet at an amount of $1 217 million (2021: $1 029 million).

13.4 Unrecognized deferred taxes

At December 31, 2022 and 2021, deferred taxes were recognized for all temporary differences, unless an exception from the general principal applied. At December 31, 2022, these unrecognized deferred tax assets totaled $43 million which have no expiration date (2021: $0 million).

14. Associates

Associates are companies where the NHI Group has the power to exercise a significant influence but does not exercise control. Significant influence 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	
	2022	2021	2022	2021
GANADO SOLAR Holdings, LLC	36%	—	—	—
TE Taygete Energy Holdco LLC	48%	48%	—	18
Total investments in associated companies			**—**	**18**

In December 2020, the Company acquired a minority interest of 48% in TE Taygete Energy Holdco LLC and in November 2022, the Company acquired a minority interest of 36% in Ganado Solar Holdings, LLC. Both of these investments are related to renewable energy projects in the U.S.

15. Cash flow statement

15.1 Operating profit

In millions of Dollars

	2022	2021
Profit for the year	1 127	688
Loss from associates	18	—
Taxes	461	(60)
Financial income	(687)	(480)
Financial expense	801	654
Total	**1 720**	**802**

15.2 Non-cash items of income and expense

In millions of Dollars

	2022	2021
Depreciation of property, plant and equipment	728	703
Impairment of property, plant and equipment	151	75
Impairment of goodwill	336	494
Amortization of intangible assets	79	68
Net result on disposal of businesses	7	24
Net result on disposal of assets	20	(2)
Non-cash items in financial assets and liabilities	40	(453)
Total	**1 361**	**909**

15.3 Decrease/(increase) in working capital

In millions of Dollars

	2022	2021
Inventories	(691)	(447)
Trade and other receivables	39	(301)
Prepayments and accrued income	12	(25)
Trade and other payables	(799)	1 345
Financial Assets	(6)	—
Accruals	109	10
Total	**(1 336)**	**582**

15.4 Variation of other operating assets and liabilities

In millions of Dollars

	2022	2021
Variation of employee benefits and liabilities	(144)	109
Variation of provisions	74	26
Other	126	127
Total	**56**	**262**

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	2022	2021
Salaries and other short-term employee benefits	17	17
Share-based payments	11	12
Post-employment benefits	1	2
Total compensation	**29**	**31**

Loans with related parties

In millions of Dollars	2022	2021
Loans to NIMCO US, Inc. (Parent) and NUSHI (NIMCO Parent):		
At January 1	17 596	14 963
Loans granted during year	1 204	2 937
Loan repayments	—	(302)
Adjustments due to scope change	—	(2)
At December 31	**18 800**	**17 596**
Loans to affiliates:		
At January 1	4 351	6 105
Loans granted during year	4 344	2 185
Loan repayments	(198)	(3 715)
Adjustments due to scope change	—	(224)
At December 31	**8 497**	**4 351**
Total loans to parent, NIMCO and affiliates	**27 297**	**21 947**
Of which current	25 709	20 947
Of which non-current	1 588	1 000
Loans from affiliates:		
At January 1	3 068	442
Loans received during year	112	3 047
Loan repayments	(615)	(421)
Total loans from affiliates at December 31	**2 565**	**3 068**

Transactions under common control

On November 18, 2022, the NHI Group sold Freshly, a healthy prepared meals business to a Nestlé Group affiliate for its fair value of $27 million. The total fair value of the assets transferred was $67 million with associated liabilities amounting $40 million.

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.

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.

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 2022, the NHI Group incurred royalties of $3 192 million to the Nestlé Group affiliated company (2021: $3 794 million).

17. Events after the balance sheet date

The Company is not aware of any specific events or transactions occurring after December 31, 2022 and up to February 28, 2023, that could have a material impact on the presentation of the accompanying Consolidated Financial Statements.