



Good Food, Good Life

NESTLÉ FINANCE INTERNATIONAL LTD.

(Société Anonyme)

Annual Financial Report

Management Report

and

Financial Statements

1 January – 31 December 2022

(With Report of the Réviseur d'Entreprises Agréé thereon)

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

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Nestlé Finance International Ltd.

Nestlé Finance International Ltd. (“NFI” or the “Company”) presents its annual financial report for the financial year ended 31 December 2022. NFI is a public limited company (*société anonyme*) organised under the laws of Luxembourg and is a wholly-owned subsidiary of Nestlé S.A. which is the holding company of the Nestlé Group of companies (the “Nestlé Group” or the “Group”). NFI is established for an unlimited duration. The Nestlé Group manufactures and sells food and beverages, as well as products related to the nutrition, health and wellness industries. The Nestlé Group product portfolio has seven product categories, distributed throughout the world: powdered and liquid beverages, water, milk products and ice cream, infant nutrition, prepared dishes and cooking aids, confectionery and pet care. The Nestlé Group also manufactures and distributes nutritional science products through its globally managed business Nestlé Health Science.

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

1. Management Report

(A) Review of the development and performance of NFI’s business during the financial year and the position of NFI’s business at the end of the year:

As at 31 December 2022, a total equivalent of EUR 19 012 million of loans and advances granted to Nestlé Group companies was outstanding, compared to EUR 17 761 million as at 31 December 2021. These were financed mainly through the issuance of bonds, commercial papers and loans and advances received from Nestlé Group companies. Other assets and liabilities comprise mainly derivatives and cash and cash equivalents (consisting of, cash balances, deposits at banks) and short term investments. The aforementioned transactions are further detailed in the notes to the financial statements of NFI for the financial year ended 31 December 2022.

Total assets increased at 31 December 2022 (EUR 19 040 million) as compared to 31 December 2021 (EUR 19 012 million). The increase in total assets (by EUR 28 million) results mainly from an increase in loans and advances granted to Nestlé Group companies (by EUR 1 251 million), from a decrease in derivative assets (by EUR 24 million), and a decrease in cash and cash equivalents (by EUR 104 million), from a decrease in short term investments (by EUR 1 084 million) and a decrease in deferred tax assets (by EUR 10 million). On the liabilities side, debt securities (bonds and commercial paper) outstanding at 31 December 2022 (EUR 18 628 million) increased by EUR 2 334 million as compared to 31 December 2021 (EUR 16 294 million) mainly as a result of an increase in the issuance of bonds. Loans and advances received from Nestlé Group companies outstanding at 31 December 2022 (EUR 0 million) decreased by EUR 2 267 million as compared to 31 December 2021 (EUR 2 267 million).

The operations reported a net gain of EUR 30.5 million for the financial year ended 31 December 2022 compared to a net loss of EUR 17.9 million for the financial year ended 31 December 2021.

Net gain before tax for the financial year ended 31 December 2022 was EUR 55.6 million, compared to a net loss before tax of EUR 12.3 million for the financial year ended 31 December 2021. The movement was due to an increase in interest income (by EUR 152.3 million) resulting from the loans and advances granted to Nestlé Group companies, an increase in interest expense (by EUR 46 million) resulting from an increase of the debt securities with higher interest rate, a decrease in net fee and commission expense (by EUR 169 million) arising from fluctuations of foreign exchange rates borne by a related party; partially offset by a decrease in other operating income (by EUR 221 million) resulting from foreign exchange gain on non-EUR denominated instruments and an increase in financial income (by EUR 13.9 million).

NFI's net operating cash outflow ("Net cash used in operating activities") was EUR 2 323 million for the financial year ended 31 December 2022 compared to net operating cash outflow of EUR 4 256 million for the financial year ended 31 December 2021.

To limit the risk of the foreign exchange currencies and the risk of counterparties NFI has transferred during 2022 the major part of the loans granted to Nestlé Group entities to a unique Nestlé Group entity. The remaining part of the loans will be transferred during 2023. In exchange, NFI lend loans, denominated in EUR, to this unique entity (Note 9). Future financial performance will depend largely on the net interest margin earned on loans and investments, funded by existing and possible further issues of bonds, commercial paper and loans and advances received from Nestlé Group companies and results from derivative transactions.

(B) Risks and Uncertainties

NFI is exposed to certain risks and uncertainties: banking credit risk, credit risk, market risk (including currency fluctuations and interest rate movements), liquidity risk and risk of an increase in cost of capital, treasury operations and other risks that could have a material adverse impact on its financial condition and operating results. The detailed discussion of these risks and uncertainties and NFI's objectives, policies and processes for managing these risks and uncertainties are disclosed in the notes to the financial statements of NFI for the year ended 31 December 2022, in particular Note 11. NFI is engaged in hedging activities to limit its exposure to risk, for further information, please refer to Note 11.

(C) Other items

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

(D) Corporate governance status

Overall control environment

The Board of Directors of NFI has overall responsibility for its control environment. The Board of Directors is responsible for monitoring the internal control and risk management systems that are related to the financial reporting process on an ongoing basis.

The internal control and risk management systems are designed to mitigate, rather than eliminate, the risks identified in the financial reporting process. In particular, internal controls related to the financial reporting process are established to mitigate, detect and correct material misstatements in the financial statements.

NFI has a number of policies and procedures in key areas of financial reporting, which are derived from the Nestlé Group's Accounting Standards, Risk Management Policy, Treasury Policy, Information Security Policy and Business Ethics Policy. These policies and procedures apply to all subsidiaries of the Nestlé Group, including NFI. NFI complies with the corporate governance code of its parent Nestlé S.A. available on the website.

Structure of capital

The share capital of NFI is divided in 220 000 shares having a nominal amount of EUR 2 each. There is only one class of share in issue and all provide the same rights to the shareholder. NFI does not have own shares. There are neither restrictions to the transfer of the issued shares in NFI nor any agreement issued by the shareholder which may result in restrictions on the transfer of NFI shares.

Instruments traded on a regulated market

NFI has issued bonds which are admitted to trading on the London Stock Exchange's regulated market and the Luxembourg Stock Exchange but no other instruments, such as NFI's shares, are admitted to trading on any regulated market. Therefore the disclosure requirements included in Article 10. paragraph 1. points c), d), f), h) and i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids as required by Article 68ter. paragraph (1) letter d) of Luxembourg modified law of 19 December 2002, are not applicable.

Control activities

Nestlé Group has established minimum requirements for the conduct and documentation of IT and manual control activities to mitigate identified significant financial reporting risks. NFI establishes and implements internal controls comprising relevant control activities for significant processes.

NFI's management is responsible for ensuring that the internal control activities are performed and documented, and is required to report on their compliance with Nestlé Group's internal control policies to Nestlé Group's finance function.

In addition, the Nestlé Group has implemented a formalised financial reporting process for the budget process and monthly reporting on actual performance. The accounting information reported by NFI is reviewed both by Nestlé Group central treasury and by technical accounting specialists at Nestlé.

Information and communication

The Nestlé Group has established information and communication systems to ensure that accounting and internal control compliance procedures are established, including a finance manual and internal control requirements.

All Nestlé Group companies, including NFI, use a standardised financial reporting system.

Monitoring

The monitoring of the internal control and risk management systems related to financial reporting is performed at various levels within the Nestlé Group, such as periodic reviews of control documentation, controller visits, audits performed by Nestlé Group Internal Audit and monitoring by the Nestlé Group's Audit Committee.

Subsequent events

As at March 21, 2023, there is no subsequent events which either warrant a modification of the value of its assets and liabilities or any additional disclosure.

Future developments

It is expected that NFI's business activities will remain unchanged in 2023. NFI will primarily continue to provide financing to members of the Nestlé Group.

Going concern

NFI's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the NFI's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

As at 31 December 2022, the total current assets is EUR 6 447 million and the total current liabilities is EUR 4 436 million. NFI will be able to face the current debt with the current asset available and the different debt program in place. For the next year, 72% (86% in 2022) of the debts have a maturity between 3 years and more than 5 years.

Based on the capital management the equity is high enough to cover the risk of default and the loss of the year.

Independent auditor's report

To the Shareholder of
Nestlé Finance International Ltd. S.A.
7, rue Nicolas Bové
L-1253 Luxembourg

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Nestlé Finance International Ltd. S.A. (the "Company" or "NFI"), which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs are further described in the "Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements" section of our report. We are also independent of the Company in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

1. *Hedge accounting*

Risk identified

NFI designates and documents certain derivatives as fair value hedge and therefore applies hedge accounting to limit its exposure to the variability of interest rates and the fluctuations in foreign currency rates in relation to certain bonds and commercial papers.

Hedge accounting is complex in terms of accounting and disclosures. The implementation of hedge accounting and the adequacy of the related disclosures especially in accordance with the requirements of IFRS 9 and IFRS 7 involves management's judgement and estimation.

Given the degree of management's judgement and estimation involved regarding the application of hedge accounting, we consider it as a key audit matter.

Our answer

Our audit procedures over hedge accounting included, among others:

- We obtained an understanding of the hedge accounting process and tested key controls.
- We assessed the Company's procedures to ensure adequate segregation of duties within the treasury function.
- We evaluated the assumptions, calculation, classification and documentation for hedge accounting including hedge effectiveness and compliance with disclosure requirements also with the support of internal specialists.
- We inspected new hedge relationships entered into and assessed the process around ensuring compliance with the requirements or IFRS 9.
- We assessed the adequacy of the Company's disclosures in respect of the hedging as disclosed in Notes 3 and 11 of the financial statements.

2. *Credit risk related to loans and advances to Nestlé Group entities*

Risk identified

NFI is a financing entity granting loans and advances to entities within the Nestlé Group referred to as Nestlé Group entities.

As of 31 December 2022, the current portion of loans and advances granted to Nestlé entities amounted to KEUR 6,442,480 whilst the non-current portion amounted to KEUR 12,569,090 both totalling K EUR 19,011,570 and representing 99.8% of the total assets of the company.

As detailed in note 1 and note 4 to the financial statements, loans to Nestlé Group entities are classified as debt instruments measured at Amortized cost and subject to impairment.

An expected credit loss (ECL) analysis was performed by the Management as at 31 December 2022 based on key judgements and estimates including:

- Completeness and accuracy of data used to calculate ECL.
- Allocation of assets to stage 1 (performing), 2 (non-performing), or 3 (default) using criteria in accordance with the accounting standard.
- Accuracy and adequacy of the financial statement disclosures.

Given the significance of Loans granted to Nestlé entities as well as the importance of the judgments involved regarding the assessment of the impairment of these financial assets, the evaluation of the recoverability of loans receivables granted to Nestlé Companies is a key audit matter.

Our answer

Our audit procedures over impairment and the evaluation of the recoverability of loans receivables granted to Nestlé Group entities (the “Loans”) included, among others:

- We inspected legal documentation related to the Loans.
- We agreed the input data used in the ECL computation by comparing the carrying value of the Loans reported in the financial statements to the related parties’ financial information obtained from Nestlé Group companies.
- We assessed the methods and assumptions applied by Management in the ECL analysis.
- We evaluated the allocation of the Loans to stage 1, 2 or 3 in accordance with IFRS 9 by testing a sample of the Loans to ensure that they were allocated to the appropriate stage.
- We performed an overall assessment of the ECL provision to assess its reasonableness considering the Company’s portfolio, risk profile, credit risk management policies and the macroeconomic environment linked to Covid-19 and Ukraine/Russia war.
- We evaluated the adequacy of the Company’s disclosures in respect of the Loans as disclosed in Notes 4 and 11 of the financial statements.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report and the corporate governance statement but does not include the financial statements and our report of “réviseur d’entreprises agréé” thereon.

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

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

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors is also responsible for presenting the financial statements in compliance with the requirements set out in the Delegated Regulation 2019/815 on European Single Electronic Format, as amended (“ESEF Regulation”).

In preparing the financial statements, the Board of Directors is responsible for assessing the Company'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 the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the “réviseur d'entreprises agréé” for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the “réviseur d'entreprises agréé” that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with the ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the “réviseur d'entreprises agréé” 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 report of the “réviseur d'entreprises agréé”. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Assess whether the financial statements have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as “réviseur d’entreprises agréé” by the General Meeting of the Shareholders on 28 April 2021 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 3 years.

The management report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

The corporate governance statement, included in the management report, is the responsibility of the Board of Directors. The information required by article 68ter paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We have checked the compliance of the financial statements of the Company as at 31 December 2022 with relevant statutory requirements set out in the ESEF Regulation that are applicable to the financial statements. For the Company, it relates to:

- Financial statements prepared in valid xHTML format.

In our opinion, the financial statements of the Company as at 31 December 2022, identified as “nestle-finance-international-ltd-fullyear-financial-report-2022.xHTML”, have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in EU Regulation No 537/2014 were not provided and that we remained independent of the Company in conducting the audit.

Ernst & Young
Société anonyme
Cabinet de révision agréé



Olivier Lemaire

Ernst & Young
Société anonyme
Cabinet de révision agréé



Petar Dionissiev

Luxembourg, 21 March 2023

3. Financial Statements for the year ended 31 December 2022

Nestlé Finance International Ltd. (“NFI”)

(Société Anonyme)

Financial Statements

(Audited)

1 January – 31 December 2022

Balance sheet as at 31 December 2022

In thousands of Euro	Notes	31 December 2022	31 December 2021
Assets			
Current assets			
Cash and cash equivalents	(4)	2 406	105 981
Short term investments	(4)	-	1 084 000
Derivative assets	(3/4)	1 215	8 760
Loans and advances to Nestlé Group companies	(4)	6 442 480	4 618 838
Current tax assets		34	210
Other assets	(4/5)	752	909
Total current assets		6 446 887	5 818 698
Non-current assets			
Derivative assets	(3/4)	-	16 242
Loans and advances to Nestlé Group companies	(4)	12 569 090	13 142 465
Deferred tax assets	(5)	24 011	34 155
Total non-current assets		12 593 101	13 192 862
Total assets		19 039 988	19 011 560
Liabilities			
Current liabilities			
Derivative liabilities	(3/4)	83 160	3 157
Loans and advances from Nestlé Group companies	(4)	-	2 267 105
Debt securities issued	(4/8)	4 082 839	4 240 430
Other liabilities	(4/5)	269 646	418 208
Total current liabilities		4 435 645	6 928 900
Non-current liabilities			
Debt securities issued	(4/8)	14 544 963	12 053 243
Total non-current liabilities		14 544 963	12 053 243
Total liabilities		18 980 608	18 982 143
Equity			
Share capital	(6)	440	440
Share premium and other premiums	(6)	102 000	102 000
Hedging reserve	(6)	- 69	463
Legal reserve	(6)	44	44
Other reserve	(6)	4 955	4 955
Accumulated losses		-47 990	-78 485
Total equity attributable to shareholders of the company		59 380	29 417
Total liabilities and equity		19 039 988	19 011 560

The accompanying notes form an integral part of the financial statements

Income statement for the year ended 31 December 2022

In thousands of Euro	Notes	Year 2022	Year 2021
Interest income		318 838	166 528
Interest expense		-133 764	-87 559
Net interest income	(2)	185 074	78 969
Net fee and commission expense from Nestlé Group companies	(2)	-208 916	-377 978
Financial income / (expense)	(2)	10 335	-3 609
Other operating income	(2)	71 129	291 695
Operating profit / (loss)		57 622	-10 923
Administration expense		-1 977	-1 373
Profit / (Loss) before tax		55 645	-12 296
Taxes	(2)	-25 150	-5 629
Profit / (Loss) for the year attributable to shareholders of the company		<u>30 495</u>	<u>-17 925</u>

The accompanying notes form an integral part of the financial statements

Statement of comprehensive (loss) / income for the year ended 31 December 2022

In thousands of Euro	Year 2022	Year 2021
Profit / (Loss) for the year recognised in the income statement	30 495	-17 925
Adjustments on cost of hedge reserve		
Recognised in hedging reserve, net of taxes	-532	411
Items that are or may be reclassified subsequently to the income statement	-532	411
Other Comprehensive (Loss) / income for the year	-532	411
Total comprehensive income / (Loss) for the year	<u>29 963</u>	<u>-17 514</u>
attributable to shareholders of the company	29 963	-17 514

Statement of changes in equity for the year ended 31 December 2022

In thousands of Euro	Notes	Share capital	Share premium and other premiums	Hedging reserve	Legal reserve	Other reserve	Accumulated losses	Total equity attributable to shareholders of the company
Equity as at 31 December 2020		440	102 000	52	44	4 955	-60 560	46 931
Gains and losses								
Loss for the year		-	-	-	-	-	-17 925	-17 925
Adjustments on cost of hedge reserve	(6)	-	-	411	-	-	-	411
Total comprehensive income for the year		-	-	411	-	-	-17 925	-17 514
Equity as at 31 December 2021		440	102 000	463	44	4 955	-78 485	29 417
Gains and losses								
Gain for the year		-	-	-	-	-	30 495	30 495
Adjustments on cost of hedge reserve	(6)	-	-	-532	-	-	-	-532
Total comprehensive income for the year		-	-	-532	-	-	30 495	29 963
Equity as at 31 December 2022		440	102 000	-69	44	4 955	-47 990	59 380

The accompanying notes form an integral part of the financial statements

Cash flows statement for the year ended 31 December 2022

In thousands of Euro	Notes	Year 2022	Year 2021
Cash flows from operating activities:			
Profit / (Loss) before taxation for the year		55 645	-12 296
Adjustments for:			
Foreign exchange gain / (loss) for loans, debt securities and derivatives		153 548	-100 082
Fair value of debt securities		-25 667	-21 416
Interest income	(2)	-318 838	-166 528
Interest expense	(2)	133 764	87 559
Change in other assets excluding prepaid and accrued income	(5)	157	205 267
Change in other liabilities excluding accrual and deferred income	(5)	-170 065	372 816
Inflow in short term investments		1 084 000	342 256
Net loans and advances to Nestlé Group companies excluding intra group interest receivable	(9)	-1 226 627	-5 498 820
Net loans and advances from Nestlé Group companies excluding intra group interest payable	(9)	-2 267 105	458 592
Interest received net of withholding tax		303 867	151 118
Interest paid		-45 469	-76 538
Income taxes paid		141	2 256
Net cash used in operating activities		-2 322 649	-4 255 816
Financing activities			
Change in derivative assets including those recognised directly in equity		23 255	20 457
Change in derivative liabilities	(4)	80 003	-7 021
Bonds issued	(8)	3 468 039	3 126 586
Commercial paper issued	(8)	59 188 365	46 146 720
Bonds repaid	(8)	-850 000	-1 000 000
Commercial paper repaid	(8)	-59 691 523	-44 026 774
Net cash from financing activities		2 218 139	4 259 968
Effects of the exchange rate changes on cash		935	-23 679
Net decrease in cash and cash equivalents		-103 575	-19 527
Net cash and cash equivalents at beginning of year	(4)	105 981	125 508
Net cash and cash equivalents at end of year *	(4)	<u>2 406</u>	<u>105 981</u>

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

The accompanying notes form an integral part of the financial statements

Notes

1. Accounting policies

Basis of preparation

These financial statements for the year ended 31 December 2022 have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union as well as with the laws and regulations in force in the Grand Duchy of Luxembourg.

The financial statements have been prepared on a historical cost basis, except for derivatives financial instruments and short term investments that are recorded at fair values.

The balance sheet has been prepared in order of liquidity.

After incurred 2 years of consecutive losses in 2021 and 2020 amounting to EUR 17 925 thousands and EUR 46 237 thousands respectively, NFI is in a positive result in 2022 for EUR 30 495 thousands. In 2022, the current liabilities of the company amounted to EUR 4 435 645 thousands and its current assets amounted to EUR 6 446 887 thousands which has led to a positive working capital of EUR 2 011 242 thousands. NFI prepared its financial statements on the basis of the going concern convention, NFI has ample market access including short term and medium-term debt capital markets, enjoying the benefit of issuance with a Nestlé S.A. AA rated guarantee. NFI can access the Nestlé Group liquidity support in place for Nestlé S.A. amounting to EUR 25 billion equivalent if there ever be an emergency.

The financial statements were authorised for issuance by the Board of Directors on 21 March 2023 and are subject to approval by the Annual General Meeting on 25 April 2023.

NFI's financial year starts on the first day of January and ends on the last day in December.

The official version of these accounts is the ESEF version available with the Officially Appointed Mechanism (OAM) tool.

Key accounting judgments, estimates and assumptions

The preparation of the financial statements requires NFI's management to exercise judgment and to make estimates and assumptions that affect the application of policies, reported amounts of revenues, expenses, assets and liabilities and disclosures. 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. The implications for NFI and the global economy following the outbreak of the war in Ukraine in late February 2022, its 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 financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Those areas affected are mainly the determination of fair value of financial instruments (see Note 1 on Fair values, Note 1 on Interest rate benchmark rate reform, Note 3 on Derivative assets and liabilities, Note 4 on Financial instruments and Note 8 on Debt securities), and the determination of the expected credit losses (ECL) on the loan granted (Refer to Note 1 paragraph impairment for further details).

The measurement of impairment losses under IFRS 9 across all categories of financial assets in scope requires judgements and estimates. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. However, the NFI's expected credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models are considered accounting judgements. Refer to Note 1 paragraph impairment for further details.

Foreign currencies

The functional currency of NFI is the currency of its primary economic environment which is the Euro, which is also the presentation currency.

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 (loss) / income as qualifying cash flow hedges.

Segmental information

The financing activities of NFI are managed as one single business. Thus, there is no segmental information in the financial statements.

Valuation methods, presentations and definitions

Operating income

Net interest income includes the income earned on loans with Nestlé Group companies, income from short term deposits and financial expense on borrowings from third parties. Net interest income also includes other financial income and expense from interest rate hedging instruments that are recognised in the income statement.

Interest income or expense is recognised using the effective interest rate method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

Net fee and commission expenses are composed of the guarantee fee that is payable to Nestlé S.A. and other fees and expenses to or from Nestlé Group companies.

Other operating income includes results on foreign currency, other income or expenses from Nestlé Group companies and income or expenses on financial instruments carried at fair value through income statement.

Taxes

NFI is subject to Luxembourg tax laws and regulations.

Taxes include current taxes and deferred taxes on profit as well as actual or potential withholding taxes on current and expected transfers of income from Nestlé Group companies and tax adjustments relating to prior financial years. Income tax is recognised in the income statement, except to the extent that it relates to items directly taken to equity, in which case it is recognised against equity. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Deferred taxes are based on the temporary differences that arise when taxation authorities recognise and measure assets and liabilities with rules that differ from those of the financial statements. They also arise 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 are recognised in the income statement unless related to items directly recognised against equity or other comprehensive (loss) / income and reflects uncertainty related to income taxes, if any. Deferred tax liabilities are recognised on all temporary differences excluding non-deductible goodwill. Deferred tax assets are recognised on all deductible temporary differences provided that it is probable that future taxable income will be available.

Financial instruments

Financial assets

Financial assets are initially recognised at fair value plus directly attributable transaction costs. However, when a financial asset at fair value to income statement is recognised, the transaction costs are expensed immediately.

Subsequent re-measurement of financial assets is determined by their categorisation which is revisited at each reporting date.

The settlement date is used for both initial recognition and subsequent derecognition of the financial assets as these transactions are generally under contracts whose terms require delivery within the time frame established by the regulation or convention in the market place (regular-way purchase or sale).

Financial assets are derecognised (in full or in part) when substantially all NFI's rights to cash flow from the respective assets have expired or have been transferred and NFI has transferred substantially all the risks and rewards of ownership.

NFI classifies its financial assets into the following categories: at amortised cost and at fair value through income statement.

Financial assets at amortised cost

This category includes the following classes of financial assets: intra Nestlé Group loans, trade and other receivables, cash and cash equivalents. Cash and cash equivalents include cash at bank and other short-term highly liquid investments with maturities of three months or less from the acquisition date.

These financial assets provide solely the payment of interest and principal and are held with the sole objective to collect the contractual cash flow up to maturity.

Subsequent to initial measurement, these assets are carried at amortised cost using the effective interest rate method and are subject to impairment.

Financial instruments at fair value through income statement

Derivative instruments are classified as financial instruments at fair value through income statement. Subsequent to initial measurement, these items are carried at fair value and all their gains and losses, realised and unrealised, are recognised in the income statement unless they are part of a hedging relationship.

NFI's derivatives mainly consist of currency forwards and interest rate swaps. Derivatives are mainly used to manage exposures to foreign exchange and interest rates.

Short term investments which consist of investments in money market fund are classified at fair value through income statement. These investments are mainly related to liquidity management. The net gain or loss is recorded in interest income or expense.

Financial liabilities at amortised cost

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

Subsequent to initial measurement, financial liabilities are measured at amortised cost.

The difference between the initial carrying amount of the financial liabilities and their redemption value is recognised in the income statement over the contractual terms using the effective interest rate method. This category includes the following classes of financial liabilities: loans and advances from Nestlé Group companies, trade and other payables, commercial paper, bonds and other non-derivative financial liabilities. Financial liabilities at amortised cost are classified as current and non-current depending whether these are due within 12 months after the balance sheet date or beyond.

Financial liabilities are derecognised (in full or in part) when either NFI is discharged from its obligation, they expire, are cancelled, or replaced by a new liability with substantially modified terms.

Hedge accounting

NFI designates and documents the use of certain derivatives as hedging instruments against changes in fair values of recognised assets and liabilities (fair value 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 the hedging instrument. NFI 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.

Fair value hedges

NFI uses fair value hedges to mitigate foreign currency and interest rate risks of its recognised assets and liabilities, being 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 recognised in the income statement.

Impairment

The credit risk management as well as the methodology, inputs and assumption for measuring the expected credit losses (ECL)

The measurement of the expected credit loss of a financial instrument should reflect: An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Exposure, loans are granted by NFI solely to Nestlé affiliates. Probability of default, based on a range possible outcomes, obtained using the Annual Global Corporate Default Study from an international recognised rating agency, based on a credit rating allocated to each counterparty using the Group's Transfer Pricing model (yearly updated). And Loss given default ("LGD") – The LGD has been assumed to be 30% (2021:30%), the industry standard for Global Corporates. Impairment losses related to Loans and advances to Nestlé Group companies are presented separately as Financial expense in the income statement.

The default occurs when a borrower fails to pay back a debt according to the initial arrangement. In the case of most consumer loans, this means that successive payments have been missed over the course of weeks or months.

NFI groups its loans into stage 1, stage 2 and stage 3 as defined below:

Stage 1: credit risk has not increased significantly since initial recognition. This stage is used for the normal calculation of the ECL with the methodology in place

Stage 2: where credit risk has increased significantly since initial recognition. Based on the financial figures of the Group reporting NFI will be inform by Nestlé Group that a risk is higher and NFI will perform a calculation based on the risk of default at the maturity date.

Stage 3: the financial asset is impaired. NFI will be inform by Nestlé Group that a borrower is in bankruptcy and NFI will perform to an impairment.

Fair values

NFI determines the fair values of its financial instruments in the following hierarchy, based on the inputs used in their valuation:

- i) Level 1 - the fair value of financial instruments quoted in active markets is based on their quoted closing price at the balance sheet date.
- ii) 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 flow, standard valuation models based on market parameters, 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 are determined by discounting estimated future cash flow.
- iii) 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, NFI carries such instruments at cost less impairment, if applicable.

Interest rate benchmark rate reform

For the long term derivatives that are priced on a EURIBOR, MORSPRIME, PRIBOR, TIIE, TELBOR, WIBOR floating rate, there is no impact generated by the IBOR reform phase 2, given that at the reporting date there is no cessation date.

Following the transfer in 2022 (see Note 9) of the major part of the intragroup loans (with IBOR interest rate) to a unique affiliated company, NFI is not impacted by the IBOR reform.

.For comparative, the table below disclose prior year exposures to IBOR:

In thousands of Euro	Base interest rate	Year of issue/maturity	31 December 2022	31 December 2021
Nominal of the loans				
USD 61 473	3 months USD LIBOR	2021-2024	-	54 372
Total			-	54 372

Prepayments and accrued income

Prepayments and accrued income comprise payments made in advance relating to the following financial year and income relating to the current financial year, which will not be received until after the balance sheet date.

Accruals and deferred income

Accruals and deferred income comprise expenses relating to the current financial year, which will not be paid until after the balance sheet date and income received in advance, relating to the following financial year.

Dividend payments

In accordance with Luxembourg law and NFI's Articles of Incorporation, dividend payments are treated as an appropriation of profit in the financial year in which they are ratified at the Annual General Meeting and subsequently paid. At the meeting of the Board of Directors of NFI held on 17 November 2022, the Board did not propose any dividend payment to NFI's shareholder.

Events occurring after the balance sheet date

The values of assets and liabilities at the balance sheet date are adjusted if there is evidence that subsequent adjusting events warrant a modification of these values. These adjustments are made up to the date of approval of these financial statements by NFI's Board of Directors. Other non-adjusting events are disclosed in the Notes to the financial statements of NFI for the year ended 31 December 2022.

Nestlé S.A. consolidation

NFI is included in the consolidated financial statements of Nestlé S.A.. Nestlé S.A. is the company that is both the smallest and the largest body of undertakings that NFI forms part of. Copies of Nestlé S.A.'s consolidated financial statements are available at the registered office of Nestlé S.A., Avenue Nestlé 55 1800 Vevey, Switzerland.

Changes in accounting standards

A number of accounting standards, among other Fees in the "10 per cent" Test for Derecognition of Financial Liabilities (Amendment to IFRS 9), have been amended on miscellaneous points with effect from 1 January 2022.

None of these changes had a material effect on NFI's financial statements.

Changes in accounting standards that may affect NFI after 31 December 2022

There are no other standards effective that are not yet effective and that would be expected to have material impact for NFI in the current or future reporting periods.

2. Operating income and taxes

Net interest income:

In thousands of Euro	Year 2022	Year 2021
Interest income from:		
Cash and cash equivalents	203	-
Loans and advances to Nestlé Group companies	318 635	166 528
Interest income	318 838	166 528
Interest expense from:		
Cash and cash equivalents	-	-199
Loans and advances from Nestlé Group companies	-473	-754
Debt securities issued	-133 291	-86 606
Interest expense	-133 764	-87 559
Net interest income	185 074	78 969

Net fee and commission:

In thousands of Euro	Year 2022	Year 2021
Fee and commission expense to Nestlé Group companies	-208 916	-377 978
Net fee and commission expense	-208 916	-377 978

Financial income / (expense):

In thousands of Euro	Year 2022	Year 2021
Expected credit loss on financial assets increase / (decrease)	10 335	-3 609
Financial income / (expense)	10 335	-3 609

Other operating income:

In thousands of Euro	Year 2022	Year 2021
Net foreign exchange gain	70 629	291 689
Net gain in fair value through income statement	500	6
Other operating income	71 129	291 695

The variation of the Net foreign exchange expense is mainly due to the fluctuation of the currencies USD, GBP, RUB and MXN. The exposition change during the year see Note 11.

Taxes:

In thousands of Euro	Year 2022	Year 2021
Net wealth tax	-35	-133
Withholding tax on interest received	-14 971	-11 407
Deferred tax (decrease) / increase (see calculation below)	-10 144	5 911
Total tax (expense) / gain	-25 150	-5 629

In thousands of Euro	Year 2022	Year 2021
Profit / (Loss) for the year	30 495	-17 925
Total tax income / (expense)	-25 150	-5 629
Profit / (Loss) before tax	55 645	-12 296
Withholding tax on interest received	-14 971	-11 407
Profit / (Loss) before corporate income tax and after withholding tax	40 674	-23 703
Tax using NFI's domestic tax rate 24,94% (2020: 24,94%)	-10 144	5 911
Net wealth tax	-35	-133
Withholding tax on interest received	-14 971	-11 407
Total tax expense	-25 150	-5 629

Fees charged by Ernst & Young S.A. ("EY") and other member firms of the EY network during the year ended December 31 were as follows

In thousands of Euro	Year 2022	Year 2021
Legal annual audit fees	-46	-40
Fees charged by EY network	-46	-40

3. Derivative assets and liabilities

By type

In thousands of Euro	Contractual or notional amounts		Fair value assets		Fair value liabilities	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Fair value hedges						
Currency forwards and swaps on debt securities issued	1 627 053	2 118 880	1 215	8 760	69 962	3 157
Interest rate and currency swaps on debt securities issued	828 243	852 906	-	16 242	13 198	-
Undesignated						
Currency forwards and swaps	-	-	-	-	-	-
Total	2 455 296	2 971 786	1 215	25 002	83 160	3 157
Conditional offsets*						
Derivative assets and liabilities			-604	-1 293	-604	-1 293
Balances after conditional offsets			611	23 709	82 556	1 864

* Represent amounts that would be offset in case of default, insolvency or bankruptcy of the counterparties

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

Impact on the income statement (net interest income) of fair value hedges

The majority of fair value hedges are related to financing activities and are presented in net interest income.

In thousands of Euro	Year 2022	Year 2021
On hedged items	-232 447	-139 162
On hedging instruments	231 134	140 349

Ineffective portion of gains/(losses) mainly related to the cost of hedge of fair value hedges is not significant.

4. Financial instruments

Financial assets and liabilities

By class

In thousands of Euro	31 December 2022	31 December 2021
Cash and cash equivalents	2 406	105 981
Short term investments	-	1 084 000
Derivative assets	1 215	25 002
Loans and advances to Nestlé Group companies	19 011 570	17 761 303
Other financial assets (a)	752	909
Total financial assets	19 015 943	18 977 195
Derivative liabilities	83 160	3 157
Loans and advances from Nestlé Group companies	-	2 267 105
Debt securities issued	18 627 802	16 293 673
Other financial liabilities (a)	269 646	418 208
Total financial liabilities	18 980 608	18 982 143
Net financial position	35 335	-4 948

(a) Refer to Note 5.

By category

In thousands of Euro	31 December 2022			31 December 2021		
	At amortised cost (a)	At fair value to income statement	Total categories	At amortised cost (a)	At fair value to income statement	Total categories
Classes						
Cash at bank and in hand (a)	2 406	-	2 406	1 418	-	1 418
Time deposit (a)	-	-	-	104 563	-	104 563
Short term investments	-	-	-	-	1 084 000	1 084 000
Loans and receivables (a)	19 012 322	-	19 012 322	17 762 212	-	17 762 212
Liquid assets and non-current financial assets	19 014 728	-	19 014 728	17 868 193	1 084 000	18 952 193
Derivative assets	-	1 215	1 215	-	25 002	25 002
Total financial assets	19 014 728	1 215	19 015 943	17 868 193	1 109 002	18 977 195
Loans and payables (a)	269 646	-	269 646	2 685 313	-	2 685 313
Financial debt (b)	18 627 802	-	18 627 802	16 293 673	-	16 293 673
Derivative liabilities	-	83 160	83 160	-	3 157	3 157
Total financial liabilities	18 897 448	83 160	18 980 608	18 978 986	3 157	18 982 143
Net financial position	117 280	- 81 945	35 335	- 1 110 793	1 105 845	-4 948
of which at fair value	-	-81 945	-81 945	-	1 105 845	1 105 845

(a) Carrying amount of these instruments is a reasonable approximation of their fair value based on observable market data.

(b) Financial debt includes Bonds (see Note 8), Commercial paper and bank overdrafts

Fair value hierarchy of financial instruments

In thousands of Euro	31 December 2022	31 December 2021
Short term investments	-	1 084 000
Prices quotes in active markets (Level 1)	-	1 084 000
Derivative assets	1 215	25 002
Derivative liabilities	-83 160	-3 157
Valuation techniques based on observable market data (Level 2)	-81 945	21 845
Valuation techniques based on unobservable input (Level 3)	-	-
Total financial instruments at fair value	-81 945	1 105 845

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

There were no financial instruments within the category Level 3 (valuation techniques based on unobservable input). All financial instruments are within Level 2 category, except for short term investments which are Level 1 (prices quoted in active markets).

Contractual maturities of financial liabilities and derivatives

The tables below shows the liabilities at 31 December 2022 and 31 December 2021 by their remaining contractual maturities; The amounts disclosed in the maturity tables are undiscounted cash flows.

In thousands of Euro	Contractual amount*					Contractual amount *	Carrying amount
	three months or less	fourth to twelfth month	in the second year	in the third to fifth year	beyond the fifth year		
Other liabilities	269 646	-	-	-	-	269 646	269 646
Loans and advances from Nestlé Group companies	-	-	-	-	-	-	-
Commercial paper	3 152 175	-	-	-	-	3 152 175	3 145 698
Bonds	37 397	1 047 066	1 290 875	4 605 750	9 967 500	16 948 588	15 482 105
Debt securities issued	3 189 572	1 047 066	1 290 875	4 605 750	9 967 500	20 100 763	18 627 803
Bank overdrafts, tax and other liabilities	-	-	-	-	-	-	-
Gross amount receivable from currency derivatives	1 627 053	-	-	-	-	1 627 053	1 621 144
Gross amount payable from currency derivatives	-1 690 566	-	-	-	-	-1 690 566	-1 689 891
Non currency derivative	-13 501	-	-	-	-	-13 501	-13 198
Net derivatives	-77 014	-	-	-	-	-77 014	-81 945

In thousands of Euro	Contractual amount*					Contractual amount *	Carrying amount
	three months or less	fourth to twelfth month	in the second year	in the third to fifth year	beyond the fifth year		
Other liabilities	418 208	-	-	-	-	418 208	418 208
Loans and advances from Nestlé Group companies	2 267 105	-	-	-	-	2 267 105	2 267 105
Commercial paper	3 397 272	-	-	-	-	3 397 272	3 391 272
Bonds	3 973	942 378	1 060 408	4 100 250	7 648 250	13 755 259	12 902 401
Debt securities issued	3 401 245	942 378	1 060 408	4 100 250	7 648 250	17 152 531	16 293 673
Bank overdrafts, tax and other liabilities	-	-	-	-	-	-	-
Gross amount receivable from currency derivatives	2 118 880	-	-	-	-	2 118 880	2 118 714
Gross amount payable from currency derivatives	-2 112 406	-	-	-	-	-2 112 406	-2 113 111
Non currency derivative	-	10 050	6 305	-	-	16 355	16 242
Net derivatives	6 474	10 050	6 305	-	-	22 829	21 845

* Future cash flow arising from interest on these short terms loans for Loans and advances from Nestlé Group companies are immaterial.

5. Other assets and liabilities

In thousands of Euro	31 December 2022	31 December 2021
Other financial assets:		
Intra Nestlé Group other receivables	55	35
Other receivables	697	903
Prepaid and accrued income	-	-29
Total other assets	752	909
Other financial liabilities:		
Intra Nestlé Group other payables	204 600	374 547
Other payables	1 866	1 984
Accruals and deferred income	63 180	41 677
Total other liabilities	269 646	418 208

Deferred tax assets

In thousands of Euro	31 December 2022	31 December 2021
Opening Balance	34 155	28 244
Increase / Decrease (note 1)	-10 144	5 911
Closing Balance	24 011	34 155

6. Share capital, share premium and other reserves:

	31 December 2022	31 December 2021
Number of shares of nominal value EUR 2 each	220 000	220 000
In thousands of Euro	440	440

Share capital is set at EUR 440 000 represented by 220 000 shares with a nominal value of EUR 2 each and is authorised, issued and fully paid.

As at 31 December 2022 and as at 31 December 2021, the share premium is EUR 102 million.

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

As at 31 December 2022 the net wealth tax reserve is EUR 4 288 thousand (2021: EUR 4 288 thousand) of which EUR 2 295 thousand (2021: EUR 1 084 thousand) is distributable to the shareholder.

The movements in other reserve for the period ended 31 December 2022 were as follows:

In thousands of Euro	31 December 2022	31 December 2021
Opening Balance	4 955	4 955
Substraction / Addition	-	-
Closing Balance	4 955	4 955

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

As at 31 December 2022, the hedging cost reserve is EUR -69 thousand (2021: EUR 463 thousand) associated with the fair value hedges.

7. Capital management:

NFI monitors the capital using the equity at risk methodology. Equity at risk refers to the fraction of equity which the lender will need to use in order to cover for potential losses incurred should the borrower default on its obligations to repay the debt, to meet obligations against its own lenders and to avoid insolvency. For purpose of determining the amount of equity which the lender has at risk, the expected loss (EL) methodology attempts to estimate the loss exposure of the particular lender by assessment of the risk profile of his debt receivables, and by applying the outcome to the overall amount of debt granted. In order to cover fully for the potential losses, the lender should have an equity buffer equal to at least the amount of its overall exposure.

Therefore, to estimate the appropriate amount of NFI's equity which is at risk as a result of its financial intermediation activity, the following equation shall be used:

Equity at risk = EL * Exposure at default

Therefore, the amount of equity NFI is assumed to have at risk as a result of its financial intermediation activity amounts to EUR 62 738 thousand (i.e. 0.33% over EUR 19 011 570 thousand) (2021: EUR 58 578 thousand i.e. 0.33% over EUR 17 750 966 thousand). EUR 62 738 thousand represents the minimum amount of equity which NFI must keep for accounting purposes in order to be able to bear the risks flowing from its financial activity.

As of 31 December 2022, the actual share capital and share premium amounts to EUR 102 440 and is therefore above the minimum amount defined above.

8. Debt securities:

Bonds

The outstanding amounts of bonds at 31 December 2022 and 31 December 2021 were as follows:

In thousands of Euro	Interest rates		Year of issue/maturity	Comments	31 December 2022	31 December 2021
	Nominal	Effective				
EUR 850.000 1,75 percent	1.75%	1.89%	2012-2022		-	849 159
EUR 500.000 0,75 percent	0.75%	0.92%	2015-2023	(b)	493 955	501 980
EUR 500.000 0,38 percent	0.38%	0.54%	2017-2024		499 129	498 302
EUR 750.000 1,25 percent	1.25%	1.31%	2017-2029		746 674	746 212
EUR 750.000 1,75 percent	1.75%	1.82%	2017-2037		742 624	742 195
GBP 400.000 2,25 percent	2.25%	2.34%	2012-2023	(a)	443 186	484 211
EUR 1.000.000 1,13 percent	1.13%	1.27%	2020-2026		995 425	994 053
EUR 1.000.000 1,50 percent	1.50%	1.63%	2020-2030		991 238	990 108
EUR 850.000 0,13 percent	0.13%	0.25%	2020-2027		844 699	843 617
EUR 650.000 0 percent	0.00%	0.05%	2020-2024		649 405	649 096
EUR 1.000.000 0,38 percent	0.38%	0.56%	2020-2032		983 400	981 677
EUR 500.000 0 percent	0.00%	-0.26%	2020-2025		503 797	505 095
EUR 500.000 0 percent	0.00%	0.16%	2020-2033		492 005	491 219
EUR 500.000 0,38 percent	0.38%	0.40%	2020-2040		498 219	498 123
EUR 1.250.000 0,00 percent	0.00%	0.00%	2021-2026		1 250 142	1 250 191
EUR 750.000 0,25 percent	0.25%	0.32%	2021-2029		746 763	746 267
EUR 500.000 0,63 percent	0.63%	0.69%	2021-2034		496 493	496 191
EUR 650.000 0,88 percent	0.88%	1.01%	2021-2041		635 422	634 706
EUR 600.000 0,88 percent	0.88%	0.95%	2022-2027		598 030	-
EUR 600.000 1,25 percent	1.25%	1.33%	2022-2031		596 302	-
EUR 800.000 1,50 percent	1.50%	1.63%	2022-2035		788 559	-
EUR 500.000 3,00 percent	3.00%	3.13%	2022-2028		496 763	-
EUR 500.000 3,25 percent	3.25%	3.38%	2022-2031		495 463	-
EUR 500.000 3,38 percent	3.38%	3.49%	2022-2034		494 411	-
Total					15 482 104	12 902 402
of which due in twelve months					937 141	849 159
of which due in the second year					1 148 534	986 191
of which due between three to five years					4 192 093	3 896 737
of which due after five years					9 204 336	7 170 315

- (a) Subject to an interest rate swap
- (b) Out of which EUR 375 million is subject to an interest rate swap (2021: EUR 375 million)

These bonds are admitted to trading on the London Stock Exchange's regulated market and the Luxembourg Stock Exchange.

As of 31 December 2022, the fair value of EUR 13 421 million (31 December 2021: EUR 13 192 million). This fair value is categorized as level 2, measured on the basis of quoted prices.

Some bonds are hedged by interest rate derivatives. The fair value of these derivatives is included within derivative liabilities for EUR 13 197 thousand (2021: derivative assets EUR 16 242 thousand).

Issue and repayment of bonds:

Several series of bonds were issued in 2022 for EUR 3 500 000 thousand gross minus of the loan origination cost of EUR 31 961 thousand (2021: EUR 3 150 000 thousand gross minus of the loan origination cost of EUR 23 414 thousand).

One series of bonds was repaid at maturity during the financial year ended 31 December 2022 for EUR 850 000 thousand (2021: EUR 1 000 000 thousand).

Commercial Paper

The outstanding amounts of commercial paper at 31 December 2022 were as follows:

In thousands of Euro	31 December 2022	31 December 2021
Commercial paper	3 145 698	3 391 271
of which due within twelve months	3 145 698	3 391 271

The interest rates of the commercial papers are between -0.87% and 4.30% (2021: -0.87% and 0.12%)

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

During the year 2022 NFI issued for EUR 59 188 365 thousand (2021: EUR 46 146 720 thousand) and repaid for EUR 59 691 523 thousand (2021: EUR 44 026 774 thousand) of commercial paper.

9. Transactions with related parties

Financing of the Nestlé Group companies

The principal business activity of NFI is the financing of companies directly or indirectly controlled by Nestlé S.A. This financing represents the majority of the transactions with related parties in quantity and in amounts. There is no experience of loss for credit default resulting from this activity, NFI assesses the impairment risk in Note 1. The majority of the loans are granted for a period of 3 years and have no guarantee. In 2022, interest rates on these loans are mainly ranged from Euribor or other interest rate benchmark available for 1 month to 6 months with a margin from 10 to 1218bps (2021: 10 to 1218bps). The ratings from an international recognised rating agency of these related companies range from C to AA-.

The transactions with Nestlé Group companies are based on arm's length prices. All outstanding balances with these related parties are to be settled in cash.

NFI has transferred during 2022 the major part of the long term loans granted to Nestlé Group entities to a unique Nestlé Group entity. The remaining part of the loans will be transferred during 2023. In exchange, NFI lend loans, denominated in EUR, to this unique entity.

The balances of transactions with related parties at the financial year ended 31 December 2022 are given below:

In thousands of Euro	31 December 2022	31 December 2021
Assets		
Derivatives assets to Nestlé Group companies	-	16 242
Loans and advances to Nestlé Group companies excluding accrued interest	18 984 311	17 739 537
Accrued interest on loans to Nestlé Group companies	27 259	21 766
Other receivables from Nestlé Group companies	-	35
Total	19 011 570	17 777 580
Liabilities		
Derivatives liabilities to Nestlé Group companies	12 865	-
Loans and advances from Nestlé Group companies excluding accrued interest	-	2 267 105
Others payables to Nestlé Group companies	204 600	374 547
Total	217 465	2 641 652
Net assets	18 794 105	15 135 928

In thousands of Euro	Year 2022	Year 2021
Interest income on loans and advances to Nestlé Group companies	318 635	166 528
Interest expense on loans and advances from Nestlé Group companies	-473	-754

Grant, receipt and repayments of loans for the financial year ended 31 December 2022 were as follows:

In thousands of Euro	Year 2022	Year 2021
Loans granted to Nestlé Group companies excluding accrued interest	40 377 192	40 721 417
Repayment of loans by Nestlé Group companies excluding accrued interest	-39 150 565	-35 222 597
Net loans and advances repaid by Nestlé Group companies	1 226 627	5 498 820
Loans received from Nestlé Group companies excluding accrued interest	13 742 363	8 042 793
Repayment of loans to Nestlé Group companies excluding accrued interest	-16 009 468	-7 584 201
Net loans and advances repaid to Nestlé Group companies	-2 267 105	458 592

The transactions included in the above tables and in note 2 and note 6 are transactions made between the parent company, Nestlé S.A., and NFI. These are detailed in the table below:

In thousands of Euro	31 December 2022	31 December 2021
Payables to Nestlé S.A.	204 413	374 537

In thousands of Euro	Year 2022	Year 2021
Other financial expenses to Nestlé S.A.	-208 702	-377 545

The ECL calculate is related to the loan granted to Nestlé Group companies (see Note 11) for EUR 10 335 thousand (2021: EUR- 3 609 thousand).

10. Guarantees

Nestlé S.A. is the guarantor of NFI in respect of all debt securities issued as described in the note 8 for both the short and long term. The issuance programmes and guarantees applicable to NFI are: EUR 25 billion Global Commercial Paper Programme (2021: EUR 25 billion), EUR 2 billion Billets de Trésorerie French Commercial Paper Programme and Euro Medium Term Note (EMTN) Debt Issuance Programme (2021: EUR 2 billion).

NFI itself has not provided any guarantees in favour of third parties.

11. Risk and uncertainties

NFI is exposed to certain risks and uncertainties that could have a material adverse impact on its financial condition and operating results:

Capital Risk

NFI's capital management is driven by the level of the loan granted and the level of the risk on the loan granted. The Board of Directors seeks to maintain a prudent balance between the risk and the capital.

Concentrations of Risk

The majority of NFI's assets represent receivables from other Nestlé Group companies. This situation is reflected in the assessment of risk of default and the measurement of the allowance for expected credit loss. The risks are concentrated to Nestlé affiliated given the purpose of the Company, with primary exposure in EUR and GBP and about 15 countries at end of 2022 and about 20 countries in 2021.

Credit Risk

Credit risk refers to the risk that an internal or external counterparty will default on its contractual obligations resulting in financial loss to the company. The amount recognised (Note 3 and 4) in the balance sheet of NFI for financial assets (Note 9 for the loans and advances to Nestlé affiliates) is the maximum credit risk in the case that counterparties are unable to fulfil their contractual obligations. In the case of derivative financial instruments, NFI is also exposed to credit risk, which results from the non-performance of contractual agreements on the part of the counterparty.

NFI aims to minimise the credit risk of liquid assets, non-current financial assets and derivative assets through the application of the Nestlé Group 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. NFI avoids the concentration of credit risk on its liquid assets by spreading them over several institutions and sectors.

Issuances of debt instruments by NFI benefit from a guarantee given by Nestlé S.A. all international recognised rating agencies which rates the credit of Nestlé S.A. and its affiliates, including NFI, may qualify or alter such rating at any time. Downgrades or placement on review for possible downgrades could harm the Nestlé Group's, including NFI's, ability to obtain financing or increase its financing costs and could have a material adverse effect on the price of debt instruments issued by NFI and thereby significantly affect NFI's financial position.

As at 31 December 2022 and as at 31 December 2021, the cash and cash equivalents and the short term investments are dealt with counterparties above BBB+. Therefore, the ECL is immaterial.

As at the balance sheet date, NFI has impaired some loans and advances to Nestlé affiliates based on ECL calculation (Note1), no other financial assets were impaired.

In thousands of Euro	31 December 2022		31 December 2021	
	Nominal	ECL calculated	Nominal	ECL calculated
Aa3	14 876 643	1 007	2 638 145	55
A1	120 000	1	1 928 400	289
A3	39 611	0	604 971	109
Baa1	37 945	1	9 500	3
Baa2	-	-	4 194 397	1 887
Baa3	337 352	11	5 040 853	3 518
Ba1	475 511	22	1 398 298	1 244
Ba2	-	-	758 272	1 036
Ba3	353 210	48	305 000	878
B1	-	-	117 866	700
B2	13 016	6	79 717	718
B3	-	-	40 958	801
Caa1	-	-	2 269	193
	16 253 288	1 096	17 118 646	11 431

Banking Credit

In its financing activities, NFI deals with many banks and financial institutions and thus is exposed to a risk of loss in the event of non-performance by the counterparties to financial instruments. While NFI seeks to limit such risk by dealing with counterparties which have high credit ratings (above BBB+), NFI cannot give any assurance that counterparties will fulfill their obligations, failure of which could materially affect NFI's financial position.

Market risk

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

Currency Fluctuations

NFI is subject to some currency fluctuations, both in terms of its trading activities and the translation of its financial statements; while NFI uses short-term hedging for trading activities, NFI does not believe that it is appropriate or practicable to hedge long-term translation exposure. NFI does, however, seek some mitigation of such translation exposure by relating the currencies of trading cash flow to those of its debt by using broadly similar interest and currency swap contracts. If NFI experiences significant currency fluctuations or is unable to use similar interest and currency swap contracts effectively, then NFI's financial condition could be adversely affected.

In thousands of Euro	31 December 2022						
	EUR	USD	GBP	BRL	MXN	RUB	others
Cash and cash equivalents	929	222	646	-	-	-	609
Short term investments	-	-	-	-	-	-	-
Derivative assets	-	605	610	-	-	-	-
Loans and advances to Nestlé Group companies	16 220 400	597 110	620 773	96 453	564 610	-	912 224
Current tax assets	34	-	-	-	-	-	-
Other financial assets	752	-	-	-	-	-	-
Total financial assets	16 222 115	597 937	622 029	96 453	564 610	-	912 833
Derivative liabilities	-	30 806	13 198	-	-	-	39 156
Loans and advances from Nestlé Group companies	-	-	-	-	-	-	-
Debt securities issued	15 863 719	2 219 005	545 078	-	-	-	-
Other financial liabilities	269 646	-	-	-	-	-	-
Total financial liabilities	16 133 365	2 249 811	558 276	-	-	-	39 156
Net financial position	88 750	-1 651 874	63 753	96 453	564 610	-	873 677

In thousands of Euro	31 December 2021						
	EUR	USD	GBP	BRL	MXN	RUB	others
Cash and cash equivalents	86 024	18 722	361	-	1	-	874
Short term investments	1 084 000	-	-	-	-	-	-
Derivative assets	6 748	8 755	9 499	-	-	-	-
Loans and advances to Nestlé Group companies	11 454 792	465 230	4 236 143	84 907	844 990	299 254	375 987
Current tax assets	210	-	-	-	-	-	-
Other financial assets	909	-	-	-	-	-	-
Total financial assets	12 632 683	492 707	4 246 003	84 907	844 991	299 254	376 861
Derivative liabilities	-	3 157	-	-	-	-	-
Loans and advances from Nestlé Group companies	1 828 475	-	438 630	-	-	-	-
Debt securities issued	14 449 954	1 359 508	484 211	-	-	-	-
Other financial liabilities	418 208	-	-	-	-	-	-
Total financial liabilities	16 696 637	1 362 665	922 841	-	-	-	-
Net financial position	-4 063 954	-869 958	3 323 162	84 907	844 991	299 254	376 861

EUR per		Year ending rates	
		2022	2021
1 US Dollar	USD	1.065	1.131
1 Pound Sterling	GBP	0.883	0.837
1 Brazilian Real	BRL	5.558	6.309
1 Mexican Peso	MXN	20.768	23.129
1 Russian Ruble	RUB	75.120	84.637

Interest Rate Risk

Interest rate risk refers to potential changes of value in financial assets, liabilities or derivatives in response to fluctuations in interest rates. NFI holds a substantial volume of interest rate sensitive financial assets, liabilities and derivatives for operational, financing and investment activities. Changes in interest rates can have an adverse effect on the financial position and operating results of NFI. In order to mitigate the impact of interest rate risk, Nestlé S.A. continually assesses the exposure of the Nestlé Group, including NFI, to this risk. Interest rate risk is managed and hedged through the use of derivative financial instruments, such as interest rate swaps, interest rate and currency swaps and forward rate agreements. When deemed appropriate, there might be unhedged positions.

NFI determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities and the notional or par amounts.

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 95% (2021: 93%).

Value at Risk (“VaR”)

Description of the method

The VaR is a single measure to assess market risk. The VaR estimates the size of losses given current positions and possible changes in financial markets. NFI uses simulation to calculate VaR based on the historic data for a 261 days period.

The VaR calculation is based on a 95% confidence level and, accordingly, does not take into account losses that might occur beyond this level of confidence. The VaR is calculated on the basis of unhedged exposures outstanding at the close of business and does not necessarily reflect intra-day exposures.

Objective of the method

NFI uses the described VaR analysis to estimate the potential one-day loss in the fair value of its financial instruments. NFI cannot predict the actual future movements in market rates, therefore, the below VaR numbers neither represent actual losses nor consider the effects of favorable movements in underlying variables. Accordingly, these VaR numbers may only be considered indicative of future movements to the extent the historic market patterns repeat in the future.

VaR figures

The VaR computation includes NFI's financial assets and liabilities that are subject to foreign currency and interest rate risk.

The estimated potential one-day loss from NFI's foreign currency and interest rate risk sensitive instruments, as calculated using the above described historic VaR model, is as follows:

In thousands of Euro	Year 2022	Year 2021
Foreign currency	6 990	24 067
Interest rate	1 685	102
Foreign currency and interest rate combined	8 167	24 027

Liquidity Risk

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.

NFI raises finance by the issuance of term debt instruments, principally in the capital markets.

NFI has ample market access including short term and medium-term debt capital markets, enjoying the benefit of issuance with a Nestlé S.A. AA rated guarantee. NFI can access the Nestlé Group liquidity support in place for Nestlé S.A. amounting to EUR 25 billion equivalent if there ever be an emergency

Therefore, NFI depends on broad access to these capital markets and investors. Changes in demand for term debt instruments on capital markets could limit the ability of NFI to fund other members of the Nestlé Group.

NFI depends on the willingness of banks to provide credit lines or loans. Due to structural changes in the banking business, the willingness of banks to provide credit lines and loans has declined over the past years. In order to reduce and minimise the dependence on banks, NFI has taken measures to maintain its access to the capital markets. For the cashflow analysis please refer to Note 4 Financial instruments.

Risk of an increase in cost of capital

NFI's capital management is driven by the impact on shareholders of the level of total capital employed. It is NFI's policy to maintain a sound capital base to support the continued development of its business. However, increases in the cost of borrowing could negatively affect the operating results of NFI. Increases in borrowing costs could arise from changes in demand for term debt instruments in the capital markets, the removal of the unconditional and irrevocable guarantee of Nestlé S.A. and a decreasing willingness of banks to provide credit lines and loans.

Treasury operations

In the course of its business, the Nestlé Group, including NFI, has substantial assets under management. Although the Nestlé Group has implemented risk management methods, including approved guidelines and financial policies to mitigate and control such risks, as a result of holding such assets, it is exposed to default risk, interest rate risk, foreign exchange risk and credit spreads. Returns on such assets may also be affected by limited exposure to yield enhancing absolute return funds. In addition, adverse changes in the credit quality of counterparties or a general deterioration in economic conditions or arising from systemic risks in the financial systems could affect the value of those assets and thereby materially affect NFI's financial position.

12. Directors

The Board of Directors of NFI comprises five Directors. The Directors do not receive any remuneration for their mandate.

13. Staff

In Luxembourg NFI employed on average three full-time employees during 2022 (three full-time employees during 2021). All these employees provide treasury and accounting services.

14. Events after the balance sheet date

As at March 21, 2023, there is no subsequent events which either warrant a modification of the value of its assets and liabilities or any additional disclosure.

4. Responsibility Statement

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

(a) the financial statements of NFI for the annual period ended 31 December 2022, which have been prepared in accordance with IFRS as adopted by the European Union as well as with the laws and regulations in force in the Grand-Duchy of Luxembourg, give a true and fair view of the assets, liabilities, financial position and profit or loss of NFI; and

(b) the management report includes a fair review of the development and performance of the business and the position of NFI, together with a description of the principal risks and uncertainties that it faces.

21 March 2023