Good Food, Good Life

NESTLÉ CAPITAL CORPORATION

Annual Financial Report

Management Report

and

Financial Statements

December 31, 2022

(With Report of the Independent Auditors thereon)

Contents

Nestlé Capital Corporation

Nestlé Capital Corporation ("NCC" or the "Company") incorporated in the State of Delaware, United States, is a wholly owned subsidiary of Nestlé Holdings, Inc. ("NHI"), 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. NCC'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 principal business activity of NCC is managing the liquidity of the 'Nestlé USA affiliate entities', which primarily includes the USA entities of the Nestlé Group.

Management Report

(A) Performance and Development

As of December 31, 2022, a total of $40.5 billion of loans granted to parent and affiliate entities was outstanding, compared to $38.6 billion as of December 31, 2021 and $35.8 billion as of January 1, 2021. These were financed mainly through the issuance of commercial paper and loans received from parent and affiliate entities. Other assets and liabilities comprise mainly of derivatives, cash and cash equivalents, and short term investments. The aforementioned transactions are further detailed in the notes to the financial statements of NCC for the year end December 31, 2022.

Total assets were $40.8 billion and $42.1 billion as of December 31, 2022 and 2021, respectively. The decrease was driven by a $3.2 billion decrease in short term investments offset by a $1.9 billion increase in loans granted to parent and affiliate entities.

Total assets were $42.1 billion and $36.1 billion as of December 31, 2021 and January 1, 2021, respectively. The increase was driven by a $3.2 billion increase in short term investments and a $2.8 billion increase in loans granted to parent and affiliate entities.

Total liabilities were $40.8 billion and $42.1 billion as of December 31, 2022 and 2021, respectively. The decrease results mainly from a $1.3 billion decrease in loans received from parent and affiliate entities.

Total liabilities were $42.1 billion and $36.1 billion as of December 31, 2021 and January 1, 2021, respectively. The increase results mainly from a $9.2 billion increase in loans received from parent and affiliate entities, offset by a $3.2 billion decrease in financial debt outstanding.

NCC reported net (loss) / income of $(5) million and $— million for years ended December 31, 2022 and 2021, respectively. The movement was due to a $158 million increase in interest income resulting from the loans granted to parent and affiliate entities, a $165 million increase in interest expense resulting from the loans received from parent and affiliate entities, as well as an increase in the interest rates on commercial paper, a $7 million decrease in net fee and commission expense arising from lower guarantee fees to Nestlé S.A. on commercial paper and a $9 million increase in expected credit loss expense related to NCC's loans to parent and affiliate entities.

NCC's net cash increase was $18 million for the year ended December 31, 2022 compared to a net cash increase of $43 million for the year ended December 31, 2021. This change was driven by a $9.6 billion decrease in operating cash flows related to loans from/(to) parent and affiliates, offset by a $6.4 billion increase in investing cash flows related to short term investments and a $3.2 billion increase in financing cash flows related to commercial paper issued and repaid.

Future financial performance will depend largely on the net interest margin earned on loans and investments, funded by issuances of commercial paper and loans received from parent and affiliate entities.

(B) Risks and Uncertainties

NCC is exposed to certain risks and uncertainties: credit risk, market risk (including currency fluctuations), 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 NCC's objectives, policies and processes for managing these risks and uncertainties are disclosed in the notes to the financial statements of NCC for the year ended December 31, 2022, in particular Note 8.

(C) Factors Affecting Results

NCC 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, could negatively impact NCC's business. Contingency plans along with policies and controls are in place aiming to protect and ensure compliance on both infrastructure and data.

NCC's liquidity/liabilities (currency, interest rate, hedging, cost of capital, banking/commercial credit, etc.) could be impacted by a major event in the financial markets. NCC, 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 NCC's ability to do business. Regular monitoring and ad hoc business continuity plans are established in order to mitigate against such events.

(D) Corporate Governance

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 NCC.

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 NCC to make sound decisions on its future operations.

Risk assessments are the responsibility of the 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.

Responsibility Statement

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

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

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

December 22, 2023

Building a better
working world

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Report of Independent Auditors

To the Board of Directors of Nestlé Capital Corporation:

Opinion

We have audited the financial statements of Nestlé Capital Corporation ("NCC"), which comprise the balance sheets as of December 31, 2022 and 2021, and January 1, 2021, and the related statements of comprehensive (loss)/income, statements of changes in equity and cash flow statements for the years ended December 31, 2022 and 2021 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 NCC at December 31, 2022 and 2021, and January 1, 2021, and the results of its operations and its cash flows for the years ended December 31, 2022 and 2021 in accordance with International Financial Reporting Standards as adopted by the European Union.

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 independent of NCC, 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, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to this matter.

Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Measurement of expected credit losses as it relates to loans to parent and affiliates	
As described in Note 2 of the financial statements, Nestle Capital Corporation (NCC) assesses whether its loans to parents and affiliates are impaired on the basis of expected credit losses. The analysis requires the identification of significant increases in the credit risk of counterparties. As disclosed in Note 8 of the financial statements, NCC has impaired certain loans to its parent and affiliates based on the expected credit loss calculation. As of December 31, 2022, the expected credit loss reserve was $8 million. The determination of the expected credit loss is based on models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Specifically, (1) Probability of default is assessed by obtaining credit ratings for counterparties based on financial data specific to entities and each period. These credit ratings are then updated to reflect the fact that the borrower entities and NCC are under common control of the same parent entity. These updated credit ratings are then applied against default rates published by an internationally recognized rating agency as part of their Annual Global Corporate Default Study, and (2) Loss given default is based on a range of possible outcomes. We deemed the measurement of the expected credit losses to be a key audit matter due to the complexity and judgment in estimating the expected credit losses, specifically the assumptions of probability of default and the loss given default percentage.	We assessed NCC's accounting policy for the determination of expected credit losses. For a sample of loans to parent and affiliates, we tested the key inputs used by NCC in the estimation of expected credit losses by validating key inputs to sources of information, including confirmations of key terms and outstanding amounts due from the counterparties, and executed legal agreements. We recalculated the expected credit loss to test the mathematical accuracy. With the support of our specialists, we assessed the appropriateness of NCC's methodology used in the estimation of the expected credit losses in accordance with IFRS 9. We assessed the appropriateness of key assumptions used, including each loan's probability of default based on credit-risk ratings assigned at the counterparty level and the loss given default percentage assigned at the counterparty level. We independently developed an estimate of the expected credit loss. We assessed the adequacy of the disclosures in Note 2 and Note 8 of the financial statements in relation to the requirements of the relevant accounting standards.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union; 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 NCC'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 NCC or to cease operations, or has no realistic alternative but to do so.

Building a better working world

Those charged with governance are responsible for overseeing NCC's financial reporting process.

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 NCC'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 related to events or conditions that may cast significant doubt on NCC'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 NCC to cease to continue as a going concern.

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.

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.

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

Ernst + Young LLP

December 22, 2023

Nestlé Capital Corporation ("NCC")

Financial Statements

(Audited)

December 31, 2022

Balance sheet as at December 31, 2022

In millions of Dollars	Notes	December 31, 2022	December 31, 2021	January 1, 2021
Assets				
Current assets				
Cash and cash equivalents	(4)	348	330	287
Short term investments	(4)	—	3,200	—
Derivative assets	(4)	2	1	3
Loans to parent and affiliates	(4/7)	34,971	38,121	33,153
Total current assets		**35,321**	**41,652**	**33,443**
Non-current assets				
Loans to parent and affiliates	(4/7)	5,488	477	2,677
Deferred tax assets	(6)	2	1	1
Total non-current assets		**5,490**	**478**	**2,678**
Total assets		**40,811**	**42,130**	**36,121**
Liabilities				
Current liabilities				
Derivative liabilities	(4)	2	1	3
Loans from parent and affiliates	(4/7)	37,894	36,292	30,201
Current income tax liabilities		33	31	27
Financial debt	(4/5)	639	666	3,877
Other liabilities		—	—	1
Total current liabilities		**38,568**	**36,990**	**34,109**
Non-current liabilities				
Loans from parent and affiliates	(4/7)	2,236	5,128	2,000
Total non-current liabilities		**2,236**	**5,128**	**2,000**
Total liabilities		**40,804**	**42,118**	**36,109**
Equity				
Share capital $100 par value. Authorized, issued and outstanding 10,000 shares		1	1	1
Additional paid-in capital		—	—	—
Retained earnings		6	11	11
Total equity attributable to shareholders of the company		**7**	**12**	**12**
Total liabilities and equity		**40,811**	**42,130**	**36,121**

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

In millions of Dollars	Notes	December 31, 2022	December 31, 2021
Interest income		1,119	961
Interest expense		(1,111)	(946)
Net interest income	(3)	**8**	**15**
Net fee and commission expense	(3)	(6)	(13)
Financial (expense) / income	(3)	(6)	3
Net other operating income	(3)	2	1
Administrative expense		(2)	(1)
(Loss) / income before tax		**(4)**	**5**
Tax expense	(6)	(1)	(5)
(Loss) / income for the year attributable to shareholders of the company		**(5)**	**—**
Other comprehensive income for the year		—	—
Total comprehensive (loss) / income for the year attributable to shareholders of the company		**(5)**	**—**

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

In millions of Dollars	Share capital	Retained earnings	Total equity attributable to shareholders of the company
Equity as at January 1, 2021	**1**	**11**	**12**
Gains and losses			
Income for the year	—	—	—
Other comprehensive income for the year	**—**	**—**	**—**
Equity as at December 31, 2021	**1**	**11**	**12**
Gains and losses			
Loss for the year	—	(5)	(5)
Other comprehensive loss for the year	**—**	**(5)**	**(5)**
Equity as at December 31, 2022	**1**	**6**	**7**

Cash flow statement for the year ended December 31, 2022

In millions of Dollars	Notes	December 31, 2022	December 31, 2021
Cash flow from operating activities			
(Loss) / income before taxation for the current year		(4)	5
Adjustments for:			
Interest income	(3)	(1,119)	(961)
Interest expense	(3)	1,111	946
Expected credit loss on financial assets expense / (income)	(3)	6	(3)
Loans from/(to) parent and affiliates, net	(7)	(3,144)	6,460
Interest received		1,107	951
Interest paid		(1,110)	(946)
Income taxes paid		—	—
Net cash (used in) / from operating activities		**(3,153)**	**6,452**
Investing activities			
Inflow/(outflow) in short term investments		3,200	(3,200)
Net cash from / (used in) investing activities		**3,200**	**(3,200)**
Financing activities			
(Outflows)/inflows from short term financial debt		(63)	(11)
Commercial paper issued	(5)	17,256	19,099
Commercial paper repaid	(5)	(17,222)	(22,297)
Net cash (used in) / from financing activities		**(29)**	**(3,209)**
Net increase in cash and cash equivalents		**18**	**43**
Net cash and cash equivalents at beginning of year		330	287
Net cash and cash equivalents at end of year	(4)	**348**	**330**

Notes

1. The Business

Nestlé Capital Corporation ("NCC" or the "Company") incorporated in the State of Delaware, United States, is a wholly owned subsidiary of Nestlé Holdings, Inc. ("NHI"), 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.

The principal business activity of NCC is managing the liquidity of the 'Nestlé USA affiliate entities', which primarily includes the USA entities of the Nestlé Group.

2. Accounting policies

Basis of preparation

The financial statements for the periods presented through December 31, 2022 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

They have been prepared on a historical cost basis, unless stated otherwise. These financial statements were authorized for issuance by NCC's directors on December 22, 2023.

First time adoption of International Financial Reporting Standards

These financial statements are the first the Company has prepared in accordance with IFRS. For periods up to and including the year ended December 31, 2020, the Company did not prepare standalone financial statements as the entity was a member of the NHI and Nestlé Group financial statements. Since NCC has not previously prepared financial statements, it has not presented a reconciliation of its statement of comprehensive (loss) / income, balance sheet or cash flows to previous generally accepted accounting principles ("GAAP").

The financial statements presented herein comply with IFRS applicable as of December 31, 2022. In preparing the financial statements, NCC's opening balance sheet was prepared as of January 1, 2021, the Company's date of transition to IFRS. The Company prepared its financial statements in accordance with the recognition and measurement principles of IFRS. The application of IFRS 1 *First-time Adoption of International Financial Reporting Standard* has not resulted in any material impact on the amounts reported from the date of transition on January 1, 2021 to December 31, 2022.

As this is the first financial statements the Company has prepared which are general-purpose financial statements, summarized below is an overview of the significant accounting policies adopted in the preparation and presentation of the financial statements. These accounting policies are consistent with IFRS and no adjustments were taken. The accounting policies set out below have been consistently applied from the date of transition on January 1, 2021.

Key accounting judgments, estimates and assumptions

The preparation of the financial statements requires NCC'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. Actual results may differ from these estimates. Revisions to accounting estimates are recognized 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 that involve a higher degree of judgment or uncertainty are explained further in the relevant notes, primarily regarding the determination of fair value of financial instruments (see Note 2 on Fair Values, Note 4 on Financial instruments and Note 5 on Commercial paper) and the determination of expected credit losses (ECL) on loans to parent and affiliates.

The measurement of impairment losses under IFRS 9 across all categories of financial assets in scope requires judgments and estimates. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. However, NCC's expected credit loss 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 judgments. Refer to Note 2 paragraph Impairment for further details.

Foreign currencies

The functional currency of NCC is the currency of its primary economic environment which is the U.S. Dollar, 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 statement of comprehensive (loss) / income, except when deferred in other comprehensive income as qualifying cash flow hedges.

Segmental information

The financing activities of NCC 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 to parent and affiliates, cash and cash equivalents and short-term deposits, as well as interest expense on borrowings from third parties and loans from parent and affiliates.

Interest income or expense is recognized 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 amortized 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.

Net other operating income includes other income or expenses from Nestlé USA affiliate entities.

Financial (expense) / income includes income or expenses on financial instruments carried at fair value through the statement of comprehensive (loss) / income.

Taxes

NCC is included within the consolidated return filed by Nestlé US Holdco Inc. ("NUSHI", ultimate holding parent entity in the US). However, NCC also records its own tax expense and liability as if it files on a standalone basis. Taxes and fiscal risks recognized in the financial statements reflect NCC 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 estimated and final tax assessments are charges to the statement of comprehensive (loss) / income in the period in which they are incurred, unless anticipated.

Taxes include current taxes and deferred taxes on profit and tax adjustments relating to prior financial years. Income tax is recognized in the statement of comprehensive (loss) / income, 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 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 being substantially enacted at the balance sheet date. Any changes of tax rates are recognized in the statement of comprehensive (loss) / income unless related to items directly recognized against equity or other comprehensive income. Deferred tax liabilities are recognized on all taxable temporary differences. Deferred tax assets are recognized on all deductible temporary differences provided that it is probable that future taxable income will be available.

Financial instruments

<u>Financial assets</u>

Financial assets are initially recognized at fair value plus directly attributable transaction costs. However, when a financial asset at FVTPL (Fair value through profit or loss) is recognized, the transaction costs are expensed immediately. Subsequent re-measurement of financial assets is determined by their categorization, which is revisited at each reporting date.

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 the regulation or convention in the market place (regular-way purchase or sale).

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

<u>Financial assets – classes and categories</u>

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. NCC classifies financial assets in the following categories:

- Measured at amortized cost;
- Measured at fair value through the statement of comprehensive (loss) / income (abbreviated as FVTPL, fair value through profit or loss).

<u>Financial assets at amortized cost</u>

This category includes the following classes of financial assets: loans to parent and affiliates and 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.

Loans to parent and affiliates 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 amortized cost using the effective interest rate method and are subject to impairment.

<u>Financial assets at fair value through the statement of comprehensive (loss) / income</u>

Derivative instruments are classified as financial instruments at fair value through the statement of comprehensive (loss) / income. Subsequent to initial measurement, these items are carried at fair value and all their gains and losses, realized and unrealized, are recognized in the statement of comprehensive (loss) / income unless they are part of a hedging relationship.

NCC's derivatives consist of currency forwards, options and swaps which are used to manage exposures to foreign exchange rates of the Nestlé USA affiliate entities. NCC manages the foreign exchange derivative activity for the benefit of the Nestlé USA affiliate entities, wherein the underlying foreign exchange transactions occur. As NCC is party to the external derivative contracts, the derivative assets and liabilities are recognized on its balance sheet as undesignated derivatives through the statement of comprehensive (loss) / income. These balances are offset by affiliate derivative contracts giving rise to receivables or payables from/to the respective affiliated operating companies along with a statement of comprehensive (loss) / income cross-charge included in Financial (expense) / income.

Investments in debt 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 as FVTPL. These investments are mainly related to liquidity management. The net gain or loss is recorded in interest income or expense.

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 measured at amortized cost. The difference between the initial carrying amount of the financial liabilities and their redemption value is recognized in the statement of comprehensive (loss) / income over the contractual terms using the effective interest rate method. This category includes the following classes of financial liabilities: loans from parent and affiliates, commercial paper and other financial liabilities.

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

Impairment

NCC assesses whether its financial assets carried at amortized cost are impaired on the basis of expected credit losses (ECL). The analysis requires the identification of significant increases in the credit risk of counterparties.

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.

The following are the inputs and assumptions for measuring the expected credit losses on NCC's loans to parent and affiliates:

NCC's exposure is related to loans it has granted to Nestlé Group affiliates. Probability of default is assessed by obtaining credit ratings for counterparties based on financial data specific to entities and each period. These credit ratings are then updated to reflect the fact that the borrower entities and NCC are under common control of the same parent entity. These updated credit ratings are then applied against default rates published by an internationally recognized rating agency as part of their Annual Global Corporate Default Study. Loss given default (LGD) is based on a range of possible outcomes, the average of which was taken which amounted to 30%, the industry standard for Global Corporates.

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

NCC 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. NCC will be informed by Nestlé Group or Treasury that a risk is higher based on the loan's performance and NCC will perform an ECL calculation based on the risk of default at the maturity date.
Stage 3: the financial asset is impaired. NCC will be informed by Nestlé Group or Nestlé Treasury that a borrower is in bankruptcy and NCC will perform an impairment test.

NCC measures loss allowances for investments in debt securities and time deposits that are determined to have low credit risk at the reporting date at an amount equal to 12 month expected credit losses. NCC 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, NCC 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.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Impairment losses on financial assets are presented under Financial (expense) / income.

Fair values

NCC 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. Examples include financial assets such as investments in debt securities.

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 flows, 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 and currency 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, NCC carries such instruments at cost less impairment, if applicable.

Changes in accounting standards that may affect NCC after December 31, 2022

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

3. Operating income

Net interest income:

	For the year ended December 31,	
In millions of Dollars	2022	2021
Interest income from:		
Short term investments	5	—
Loans and advances to parent and affiliates	1,114	961
Interest income	**1,119**	**961**
Interest expense from:		
Loans and advances from parent and affiliates	(1,088)	(942)
Commercial paper issued	(23)	(4)
Interest expense	**(1,111)**	**(946)**
Net interest income	**8**	**15**

Net fee and commission expense:

	For the year ended December 31,	
In millions of Dollars	2022	2021
Fee and commission expense to Nestlé Group companies	(6)	(13)
Net fee and commission expense	**(6)**	**(13)**

Financial (expense) / income:

	For the year ended December 31,	
In millions of Dollars	2022	2021
Expected credit loss on financial assets (expense) / income	(6)	3
Net gain / (loss) in fair value through statement of comprehensive (loss) / income(a)	3	(2)
Affiliate derivative cross charge (expense) / income(a)	(3)	2
Financial (expense) / income	**(6)**	**3**

(a) Refer to 'Financial assets at fair value through statement of comprehensive (loss) / income' section of Note 2 for detail on offset between 'Net gain/ (loss) in fair value through income statement' and 'Affiliate derivative cross charge (expense)/income'

Net other operating income:

	For the year ended December 31,	
In millions of Dollars	2022	2021
Affiliate administrative cross charge income	2	1
Net other operating income	**2**	**1**

4. Financial instruments

Financial assets and liabilities

By class and category

In millions of Dollars	As at December 31, 2022		
Classes	At amortized cost (a)	At fair value to statement of comprehensive (loss) / income	**Total categories**
Cash at bank and in hand	348	—	**348**
Liquid assets	348	—	**348**
Loans to parent and affiliates	40,459	—	**40,459**
External derivative assets	—	2	**2**
Total financial assets	**40,807**	**2**	**40,809**
Financial Debt(b)	(639)	—	**(639)**
Loans from parent and affiliates	(40,130)	—	**(40,130)**
Affiliate derivative liabilities	—	(2)	**(2)**
Total financial liabilities	**(40,769)**	**(2)**	**(40,771)**
Net financial position	38	—	**38**
Of which at fair value	—	—	**—**

In millions of Dollars	As at December 31, 2021		
Classes	At amortized cost (a)	At fair value to statement of comprehensive (loss) / income	**Total categories**
Cash at bank and in hand	330	—	**330**
Bonds and debt funds	—	3,200	**3,200**
Liquid assets	330	3,200	**3,530**
Loans to parent and affiliates	38,598	—	**38,598**
Affiliate derivative assets	—	1	**1**
Total financial assets	**38,928**	**3,201**	**42,129**
Financial Debt(b)	(666)	—	**(666)**
Loans from parent and affiliates	(41,420)	—	**(41,420)**
External derivative liabilities	—	(1)	**(1)**
Total financial liabilities	**(42,086)**	**(1)**	**(42,087)**
Net financial position	(3,158)	3,200	**42**
Of which at fair value	—	3,200	**3,200**

In millions of Dollars	As at January 1, 2021		
Classes	At amortized cost (a)	At fair value to statement of comprehensive (loss) / income	**Total categories**
Cash at bank and in hand	287	—	**287**
Liquid assets	287	—	**287**
Loans to parent and affiliates	35,830	—	**35,830**
External derivative assets	—	2	**2**
Affiliate derivative assets	—	1	**1**
Total financial assets	**36,117**	**3**	**36,120**
Financial Debt(b)	(3,877)	—	**(3,877)**
Loans from parent and affiliates	(32,201)	—	**(32,201)**
External derivative liabilities	—	(1)	**(1)**
Affiliate derivative liabilities	—	(2)	**(2)**
Total financial liabilities	**(36,078)**	**(3)**	**(36,081)**
Net financial position	39	—	**39**
Of which at fair value	—	—	**—**

(a) Carrying amount of these instruments is a reasonable approximation of their fair value.
(b) Financial debt includes Commercial paper (Note 5) and bank lines of credit.

Fair value hierarchy of financial instruments

In millions of Dollars	December 31, 2022	December 31, 2021	January 1, 2021
Bonds and debt funds	—	3,200	—
Prices quoted in active markets (Level 1)	**—**	**3,200**	**—**
External derivative assets	2	—	2
External derivative liabilities	—	(1)	(1)
Affiliate derivative assets	—	1	1
Affiliate derivative liabilities	(2)	—	(2)
Valuation techniques based on observable market data (Level 2)	**—**	**—**	**—**
Total financial instruments at fair value	**—**	**3,200**	**—**

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

Contractual maturities of financial liabilities and derivatives

The tables below shows the liabilities as at December 31, 2022 and 2021 and January 1, 2021 by their remaining contractual maturities. The amounts disclosed in the maturity tables are undiscounted cash flows.

		Contractual amount					
As at December 31, 2022	In millions of Dollars	1st year	2nd year	3rd to 5th year	After the 5th year	Contractual amount	Carrying amount
	Loans from parent and affiliates	37,894	112	2,124	—	40,130	40,130
	Commercial paper	547	—	—	—	547	547
	Other financial debt	92	—	—	—	92	92
	Gross amount receivable from external currency derivatives	30	—	—	—	30	30
	Gross amount payable from external currency derivatives	(28)	—	—	—	(28)	(28)
	Net external derivatives	**2**	**—**	**—**	**—**	**2**	**2**
	Gross amount receivable from affiliate currency derivatives	28	—	—	—	28	28
	Gross amount payable from affiliate currency derivatives	(30)	—	—	—	(30)	(30)
	Net affiliate derivatives	**(2)**	**—**	**—**	**—**	**(2)**	**(2)**
	Net external and affiliate derivatives	—	—	—	—	—	—

		Contractual amount					
As at December 31, 2021	In millions of Dollars	1st year	2nd year	3rd to 5th year	After the 5th year	Contractual amount	Carrying amount
	Loans from parent and affiliates	36,292	2,000	3,128	—	41,420	41,420
	Commercial paper	511	—	—	—	511	511
	Other financial debt	155	—	—	—	155	155
	Gross amount receivable from external currency derivatives	20	—	—	—	20	20
	Gross amount payable from external currency derivatives	(21)	—	—	—	(21)	(21)
	Net external derivatives	**(1)**	**—**	**—**	**—**	**(1)**	**(1)**
	Gross amount receivable from affiliate currency derivatives	21	—	—	—	21	21
	Gross amount payable from affiliate currency derivatives	(20)	—	—	—	(20)	(20)
	Net affiliate derivatives	**1**	**—**	**—**	**—**	**1**	**1**
	Net external and affiliate derivatives	—	—	—	—	—	—

	In millions of Dollars	Contractual amount 1st year	2nd year	3rd to 5th year	After the 5th year	Contractual amount	Carrying amount
As at January 1, 2021	Loans from parent and affiliates	30,201	—	2,000	—	32,201	32,201
	Commercial paper	3,711	—	—	—	3,711	3,711
	Other financial debt	166	—	—	—	166	166
	Gross amount receivable from external currency derivatives	65	—	—	—	65	65
	Gross amount payable from external currency derivatives	(64)	—	—	—	(64)	(64)
	Net external derivatives	**1**	**—**	**—**	**—**	**1**	**1**
	Gross amount receivable from affiliate currency derivatives	64	—	—	—	64	64
	Gross amount payable from affiliate currency derivatives	(65)	—	—	—	(65)	(65)
	Net affiliate derivatives	**(1)**	**—**	**—**	**—**	**(1)**	**(1)**
	Net external and affiliate derivatives	—	—	—	—	—	—

5. Debt securities:

Commercial Paper

The outstanding amounts of commercial paper at December 31, 2022 and 2021 and January 1, 2021 were as follows:

In millions of Dollars	December 31, 2022	December 31, 2021	January 1, 2021
Commercial paper	**547**	**511**	**3,711**
of which due within twelve months	547	511	3,711

The interest rates of the commercial papers in 2022 were between 0.04% and 4.31% (2021: 0.02% and 0.95%)

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

6. Taxes

6.1 Components of tax expense recognized in the statement of comprehensive (loss) / income

	For the year ended December 31,	
In millions of Dollars	2022	2021
Current tax expense	(3)	(4)
Deferred tax benefit / (expense)	2	(1)
Total tax expense	**(1)**	**(5)**

6.2 Reconciliation of taxes recognized in the statement of comprehensive (loss) /income

	For the year ended December 31,	
In millions of Dollars	2022	2021
Expected tax expense at average applicable tax rate	(1)	(5)
Tax effect of non-deductible or non-taxable items	—	—
Prior years' taxes	—	—
Transfers from unrecognized deferred tax assets	—	—
Other taxes	—	—
Income tax expense at effective tax rate	**(1)**	**(5)**

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

	For the year ended December 31,	
In millions of Dollars	2022	2021
Allowance for bad debts	2	(1)
Deferred tax benefit / (expense)	**2**	**(1)**

6.4 Reconciliation of deferred taxes by type of temporary differences recognized on the balance sheet

Deferred tax assets / (liabilities) by types of temporary differences are as follows:

In millions of Dollars	December 31, 2022	December 31, 2021	January 1, 2021
Allowance for bad debts	2	1	1
Total deferred tax assets / (liabilities)	**2**	**1**	**1**

7. Transactions with related parties

Financing of Nestlé USA affiliate entities

The principal business activity of NCC is managing the liquidity of the Nestlé USA affiliate entities, including their financing. This financing represents the majority of the transactions with related parties in quantity and in amounts. The majority of the loans are designated as in-house bank loans (IHBs) granted to parent and affiliate entities, which rollover at periodic intervals, where the interest rates are based on the average cost of funds of all external debt of NHI and its consolidated subsidiaries. To a lesser extent, NCC also grants term loans, generally but not exclusively for 3 years, at interest rates based on the Applicable Federal Rates (AFRs) prescribed by the IRS. The majority of outstanding balances with these related parties are expected to be settled in cash.

NCC also receives loans from parent and affiliate entities, the terms of which are consistent with those discussed above, with the exception of specific IHBs received from its parent for which the interest rate is based on the average cost of funds of external debt of standalone NHI.

All of NCC's loans are granted to Nestlé Group affiliate entities and therefore both the lender and borrowers in these transactions are under the control of the same parent entity, Nestlé S.A. Further, the financial and solvency ratios of the Nestlé Group affiliate entity borrowers are strongly influenced by the Nestlé Group policies regarding dividend distribution, transfer pricing, royalties and cash management. Nestlé Group has an ongoing interest in sustaining the relationships of its affiliate entities.

NCC has access to ample liquidity, including short term debt capital markets, notably through the Nestlé Group's commercial paper programs of up to a combined aggregate amount of EUR 25 billion equivalent, enjoying the benefit of issuance with Nestlé S.A.'s AA- rated guarantee. Nestlé S.A. also has revolving credit facilities amounting to EUR 10.6 / USD 11.4 billion equivalent, which serve primarily as backstop liquidity to the Nestlé Group's short term debt.

Loans with related parties and Nestlé USA affiliate entities

The following is a breakdown of Loans to/from parent and affiliates split between the loan principle balance and accrued interest.

In millions of Dollars	December 31, 2022	December 31, 2021	January 1, 2021
Loans to parent and affiliates:			
Loans to parent and affiliates excluding accrued interest	40,389	38,542	35,781
Accrued interest on loans to parent and affiliates	70	56	49
Total loans to parent and affiliates	**40,459**	**38,598**	**35,830**
Loans from parent and affiliates:			
Loans from parent and affiliates excluding accrued interest	40,127	41,417	32,199
Accrued interest on loans from parent and affiliates	3	3	2
Total loans from parent and affiliates	**40,130**	**41,420**	**32,201**

Grant, receipt and repayments of loans for the years ended December 31, 2022 and 2021 were as follows:

In millions of Dollars	December 31, 2022	December 31, 2021
Loans to parent[(a)]:		
At January 1	18,403	16,236
Loans granted during year	857	4,456
Loan repayments	(1,231)	(2,289)
At December 31	**18,029**	**18,403**
Loans to affiliates:		
At January 1	20,139	19,545
Loans granted during year	6,400	2,087
Loan repayments	(4,179)	(1,493)
At December 31	**22,360**	**20,139**
Total loans to parent and affiliates	**40,389**	**38,542**
Of which current	34,901	38,065
Of which non-current	5,488	477
Loans from parent[(b)]:		
At January 1	29,891	23,465
Loans received during year	3,738	6,426
Loan repayments	—	—
At December 31	**33,629**	**29,891**
Loans from affiliates:		
At January 1	11,526	8,734
Loans received during year	359	3,415
Loan repayments	(5,387)	(623)
At December 31	**6,498**	**11,526**
Total loans from parent and affiliates	**40,127**	**41,417**
Of which current	37,891	36,289
Of which non-current	2,236	5,128

(a) Loans to Parent entities cover NIMCO US, Inc. (NHI Parent), NUSHI (NIMCO Parent), SPN S.A. (NUSHI Parent) and Nestlé S.A. (SPN S.A. Parent).
(b) Loans from NHI (NCC Parent).

NCC's ECL relates to loans granted to parent and affiliates (see note 8) and amounted to financial (expense) / income of (6) million and 3 million for the years ended December 31, 2022 and 2021, respectively.

8. Risk and uncertainties

In the course of its business, NCC is exposed to a number of financial risks: credit risk, liquidity risk, market risk. This note presents NCC's objectives, policies and processes for managing its financial risk and capital.

Financial risk management is an integral part of the way Nestlé Group, including NCC, is managed. The Nestlé S.A. Board of Directors determines the financial control principles as well as the principles of financial planning. The Chief Executive Officer of Nestlé S.A. organizes, manages, and monitors all financial risks, including asset and liability matters.

A Nestlé S.A. Asset and Liability Management Committee ("ALMC"), under the supervision of the Chief Financial Officer of Nestlé S.A., is the governing body for the establishment and subsequent execution of Nestlé S.A.'s Financial Asset and Liability Management Policy, to which NCC is subject. It ensures implementation of strategies and achievement of objectives of Nestlé S.A.'s Financial Asset and Liabilities Management Policy, which are executed by the Centre Treasury, the Regional Treasury Centers, 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 Centers 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.

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

Capital Risk

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

NCC's commercial paper is guaranteed by Nestlé S.A, which allows NCC to borrow from third parties at lower interest rates.

Concentrations of Risk

The majority of NCC's assets represent receivables from Nestlé USA affiliate entities. 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 USA affiliate entities given the purpose of the Company, with primary exposure in USD and in the USA and Switzerland.

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 recognized (Note 4) in the balance sheet of NCC for financial assets (Note 7 for the loans and advances to Nestlé USA affiliate entities) is the maximum credit risk in the case that counterparties are unable to fulfil their contractual obligations. In the case of derivative financial instruments, NCC is also exposed to credit risk, which results from the non-performance of contractual agreements on the part of the counterparty.

NCC aims to minimize 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 credit default swaps. As a result of this review, changes on credit limits and risk allocation are carried out. NCC avoids the concentration of credit risk on its liquid assets by spreading them over several institutions and sectors.

Issuances of debt instruments by NCC benefit from a guarantee given by Nestlé S.A. All international recognized rating agencies which rate the credit of Nestlé S.A. and its affiliates, including NCC, may qualify or alter such rating at any time. Downgrades or placement on review for possible downgrades could harm the Nestlé Group's, including NCC'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 NCC and thereby significantly affect NCC's financial position.

As of the balance sheet date, NCC has impaired certain loans to parent and affiliates based on the ECL calculation discussed in Note 2, as detailed below. No other financial assets were impaired.

In millions of Dollars	December 31, 2022		December 31, 2021		January 1, 2021	
Grade	Nominal[(a)]	ECL calculated	Nominal[(a)]	ECL calculated	Nominal[(a)]	ECL calculated
Aa3	134	—	—	—	2,289	—
Ba1	14	—	—	—	—	—
Ba2	4,616	6	1	—	1	—
Ba3	533	2	160	1	150	—
B1	—	—	—	—	—	—
B2	49	—	172	1	112	1
B3	—	—	—	—	224	4
	5,346	**8**	**333**	**2**	**2,776**	**5**

(a) The variance between the nominal amounts disclosed herein and loans to parent and affiliates presented on the balance sheet relate to IHB loans granted for which the ECL is not material.

Credit rating of financial assets

This includes liquid 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. NCC uses an internationally recognized credit scale to present the information. NCC deals mainly with financial institutions located in North America and the United Kingdom. These assets amounted to 350 million, 3,531 million and 290 million as of December 31, 2022, December 31, 2021 and January 1, 2021, respectively, and were all rated A- and above.

Banking Credit

In its financing activities, NCC 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 NCC seeks to limit such risk by dealing with counterparties which have high credit ratings (above BBB+), NCC cannot give any assurance that counterparties will fulfill their obligations, failure of which could materially affect NCC's financial position.

Market risk

Given the short-term nature of NCC's commercial paper and marketable securities, NCC does not deem interest rate risk to be a significant risk.

Foreign currency risk

The Nestlé USA affiliate entities are 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 each affiliate's specific business requirements through the use of currency forwards, swaps and options. NCC manages the foreign exchange derivative portfolio for the benefit of the Nestlé USA affiliate entities, wherein the underlying foreign exchange transactions occur. As NCC is party to the external derivative contracts, the derivative assets and liabilities are recognized on its balance sheet as undesignated derivatives through the statement of comprehensive (loss) / income. These balances are offset by affiliate derivative contracts giving rise to receivables or payables from/to the respective affiliated operating companies along with a statement of comprehensive (loss) / income cross-charge included in Financial (expense) / income.

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. Such risk may result from inadequate market depth or disruption or refinancing problems. NCC'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.

See Note 4 for disclosure of contractual maturities of financial liabilities and derivatives.

Risk of an increase in cost of capital

NCC's capital management is driven by the impact on shareholders of the level of total capital employed. It is NCC'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 NCC and impact its ability to issue long-term debt. Increases in borrowing costs could arise from changes in demand for commercial paper and long-term debt 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 NCC, 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, 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 NCC's financial position.

9. Events after the balance sheet date

i) On January 20, 2023, NCC completed the refinancing of its existing $2,000 term loan with NDHH LLC, a Nestle USA affiliate entity, by extending the maturity date to January 31, 2024. The loan was originally scheduled to mature on January 31, 2023.

ii) In December 2023, NHI expressed its intent to capitalize a portion of the intragroup debt between NCC, as borrower, and NHI, as lender, which represented approximately $16,900 of the IHB balance as of December 31, 2022.