



Good Food, Good Life

NESTLÉ FINANCE INTERNATIONAL LTD.

(Société Anonyme)

Half-Yearly Financial Report

Management Report

and

Condensed Interim Financial Statements

1 January-30 June 2020

(Unaudited)

**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 half-yearly financial report for the six-month period ended 30 June 2020. 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, nutrition and health science, milk products and ice cream, prepared dishes and cooking aids, pet care, confectionery and water.

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.

Management Report

(A) Important events that have occurred during the six-month period January–June 2020, and their impact on the financial statements:

At 30 June 2020, a total equivalent of EUR 13 626 million of loans and advances granted to Nestlé Group companies was outstanding compared to EUR 10 918 million as at 31 December 2019. These were financed mainly through the issuance of bonds, commercial paper and loans and advances received from Nestlé Group companies. Other assets and liabilities comprise mainly derivatives, cash and cash equivalents (consisting of, for example, cash balances and deposits at banks with original maturities of three months or less). The aforementioned transactions are further detailed in the Notes to the Unaudited Financial Statements of NFI for the six-month period ended 30 June 2020.

Total assets increased at the end of six-month period January-June 2020 (EUR 14 221 million) as compared to the financial year ended 31 December 2019 (EUR 11 254 million). The increase in total assets (by EUR 2 967 million) results mainly from an increase in loans and advances granted to Nestlé Group companies (by EUR 2 708 million), an increase in derivative assets (by EUR 13 million) and a decrease in cash and cash equivalents (by EUR 91 million). Debt securities (bonds and commercial paper) outstanding at the end of the six-month period January-June 2020 (EUR 11 045 million) increased by EUR 3 378 million as compared to the financial year ended 31 December 2019 (EUR 7 667 million) as a result of an increase in the issuance of bonds. Loans and advances received from Nestlé Group companies outstanding at 30 June 2020 (EUR 3 028 million) decreased by EUR 146 million as compared to 31 December 2019 (EUR 3 175 million).

Financing operations reported a net loss of EUR 3.3 million for the six-month period January-June 2020, compared to a net profit of EUR 5.4 million for the six-month period January-June 2019.

Net profit before tax for the six-month period January-June 2020 was EUR 0.05 million compared to EUR 10 million for the six-month period January-June 2019. There was an increase of EUR 415 million in net fee and commission income from Nestlé Group companies arising from fluctuations of foreign exchange rates borne by a related party, an decrease of EUR 419 million in other operating expense / income resulting from foreign exchange gains on non-EUR denominated instruments and a decrease in net interest income (of EUR 6.5 million). This has been further disclosed in the Notes to the Unaudited Financial Statements of NFI for the six-month period ended 30 June 2020, in particular, in Note 2.

NFI's net operating cash outflow was EUR -88.5 million for the six-month period January-June 2020 compared to net operating cash inflow of EUR 14.8 million for the six-month period January-June 2019.

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) Principal Risks and Uncertainties for the remaining six-month period July–December 2020

NFI is exposed to certain risks and uncertainties: banking credit risk, credit risk, market risk (including currency fluctuations and interest rate movements), liquidity risk, 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. NFI's principal risks and uncertainties for the remaining six months of the financial year have not changed since the issuance of NFI's 2019 Annual Financial Report. The detailed discussion of these risks and uncertainties and NFI's objectives, policies and processes for managing these risks and uncertainties were disclosed in the Notes to the Audited Financial Statements of NFI for the year ended 31 December 2019, in particular Note 10.

(C) Other items

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

(D) Corporate governance status

The overall control environment, risk assessment, control and monitoring activities have been disclosed in the Audited Financial Statements of NFI for the year ended 31 December 2019.

Nestlé Finance International Ltd. (“NFI”)

(Société Anonyme)

Financial Statements
(Unaudited)

1 January–30 June 2020

Balance sheet as at 30 June 2020

In thousands of Euro	Notes	30 June 2020	31 December 2019
Assets			
Current assets			
Cash and cash equivalents		191 212	282 269
Derivative assets	(3)	50 185	37 142
Loans and advances to Nestlé Group companies	(7)	7 662 071	2 063 221
Current tax assets		3 847	3 001
Other assets		335 775	572
Total current assets		8 243 090	2 386 205
Non-current assets			
Loans and advances to Nestlé Group companies	(7)	5 964 033	8 855 040
Deferred tax assets		14 105	12 993
Property, plant and equipment		1	1
Total non-current assets		5 978 139	8 868 034
Total assets		14 221 229	11 254 239
Liabilities			
Current liabilities			
Bank overdrafts		-	3 223
Derivative liabilities	(3)	3 657	12 928
Loans and advances from Nestlé Group companies	(7)	3 028 388	3 174 714
Debt securities issued	(6)	1 793 564	2 845 420
Other liabilities		53 974	303 189
Total current liabilities		4 879 583	6 339 474
Non-current liabilities			
Debt securities issued	(6)	9 251 467	4 821 172
Total non-current liabilities		9 251 467	4 821 172
Total liabilities		14 131 050	11 160 646
Equity			
Share capital	(4)	440	440
Share premium and other premiums		102 000	102 000
Hedging reserve		408	477
Legal reserve	(4)	44	44
Other reserve	(4)	4 955	4 955
Retained earnings		-17 668	-14 323
Total equity attributable to shareholders of the company		90 179	93 593
Total liabilities and equity		14 221 229	11 254 239

Income statement for the six-month period ended 30 June 2020

In thousands of Euro	Notes	January-June 2020	January-June 2019
Interest income		89 464	91 469
Interest expense		-43 710	-39 224
Net interest income	(2)	45 754	52 245
Fee and commission income		375 961	20 021
Fee and commission expense		-42 219	-101 472
Net fee and commission income / (expense) from Nestlé Group companies	(2)	333 742	-81 451
Other operating (expense) / income	(2)	-378 816	39 917
Operating profit		680	10 711
Administration expense		-632	-713
Profit before tax		48	9 998
Taxes	(2)	-3 393	-4 622
Profit / (Loss) for the period attributable to shareholders of the company		-3 345	5 376

Other comprehensive income for the six-month period ended 30 June 2020

In thousands of Euro	January-June 2020	January-June 2019
Profit / (Loss) for the period recognised in the income statement	-3 345	5 376
Adjustments on cost of hedge reserve Recognised in hedging reserve	-69	2 763
Items that are or may be reclassified subsequently to the income statement	-69	2 763
Other comprehensive income / (loss) for the period	-69	2 763
Total comprehensive income / (loss) for the period attributable to shareholders of the company	-3 414 -3 414	8 139 8 139

Statement of changes in equity for the six-month period ended 30 June 2020

In thousands of Euro	Share capital	Share premium and other premiums	Hedging reserve	Legal reserve	Other reserve	Retained earnings	Total equity attributable to shareholders of the company
Equity as at 31 December 2018	440	102 000	317	44	4 955	-27 348	80 408
Gains and losses							
Gain for the period	-	-	-	-	-	5 376	5 376
Adjustments on cost of hedge reserve	-	-	2 763	-	-	-	2 763
Total comprehensive income for the period	-	-	2 763	-	-	5 376	8 139
Equity as at 30 June 2019	440	102 000	3 080	44	4 955	-21 972	88 547
Equity as at 31 December 2019	440	102 000	477	44	4 955	-14 323	93 593
Gains and losses							
Gain for the period	-	-	-	-	-	-3 345	-3 345
Adjustments on cost of hedge reserve	-	-	-69	-	-	-	-69
Total comprehensive income for the period	-	-	-69	-	-	-3 345	-3 414
Equity as at 30 June 2020	440	102 000	408	44	4 955	-17 668	90 179

Cash flow statement for the six-month period ended 30 June 2020

In thousands of Euro	January-June 2020	January-June 2019
Cash flows from operating activities:		
Profit before taxation for the period	48	9 998
Adjustments for:		
Foreign exchange loss / gain for bank accounts, loans and debt securities	417 980	-24 443
Fair value of debt securities	6 700	11 543
Interest income	-89 464	-91 469
Interest expense	63 566	79 994
Change in derivative assets including those recognised directly in equity	-13 112	-16 625
Change in other assets excluding prepaid and accrued income	-335 203	3
Change in derivative liabilities	-9 271	9 689
Change in other liabilities excluding accrual and deferred income	-280 032	47 145
Net loans and advances to Nestlé Group companies excluding intra group interest receivable	-3 125 679	-492 715
Net loans and advances from Nestlé Group companies excluding intra group interest payable	-137 453	-1 072 031
Bonds issued	4 449 188	-
Commercial paper issued	18 417 065	27 430 483
Bonds repaid	-500 000	-
Commercial paper repaid	-19 022 977	-25 930 078
Interest received net of withholding tax	86 379	89 850
Interest paid	-15 339	-35 662
Income taxes paid	-846	-846
Net cash (outflow) / inflow from operating activities	-88 450	14 836
Effects of the exchange rate changes on cash	616	-6 918
Net (decrease) / increase in cash and cash equivalents	-87 834	7 918
Net cash and cash equivalents at beginning of the period *	279 046	103 334
Net cash and cash equivalents at end of the period *	<u>191 212</u>	<u>111 252</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.

Notes

1. Accounting policies

Basis of preparation

These financial statements are the Unaudited Condensed Interim Financial Statements of NFI for the six-month period ended 30 June 2020. They have been prepared in accordance with IAS 34 – Condensed Interim Financial Reporting as adopted by the European Union as well as with the laws and regulations in force in the Grand Duchy of Luxembourg and should be read in conjunction with the Audited Financial Statements of NFI for the year ended 31 December 2019.

The accounting conventions and accounting standards are the same as those applied in the Audited Financial Statements of NFI for the year ended 31 December 2019, except for those mentioned below, in the sections 'Changes in accounting standards'. The preparation of the Unaudited Condensed Interim Financial Statements of NFI for the six-month period ended 30 June 2020 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. The key sources of estimation of uncertainty within the Unaudited Financial Statements of NFI for the six-month period 30 June 2020 remain the same as those that applied to the Audited Financial Statements of NFI for the year ended 31 December 2019.

NFI is included in the consolidated financial statements of Nestlé S.A., Avenue Nestlé 55, 1800 Vevey, Switzerland.

Changes in accounting standards

A number of other accounting standards have been modified on miscellaneous points with effect from 1 January 2020. These include Definition of Material (Amendments to IAS 1 and IAS 8) and Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). None of these amendments had a material effect on the Unaudited Condensed Interim Financial Statements of NFI for the six-month period ended 30 June 2020.

2. Operating income/(expense) and taxes

Net interest income:

In thousands of Euro	January-June 2020	January-June 2019
Interest income from:		
Short term investments	-30	628
Loans and advances to Nestlé Group companies	89 494	90 841
Interest income	89 464	91 469
Interest expense from:		
Loans and advances from Nestlé Group companies	-4 539	-3 575
Debt securities issued	-39 171	-35 649
Interest expense	-43 710	-39 224
Net interest income	45 754	52 245

Net fees and commission income

In thousands of Euro	January-June 2020	January-June 2019
Fee and commission income from Nestlé Group companies	375 961	20 021
Fee and commission expense to Nestlé Group companies	-42 219	-101 472
Net fee and commission income / (expense)	333 742	-81 451

Other operating expense:

In thousands of Euro	January-June 2020	January-June 2019
Net foreign exchange (expense) / income	-378 545	40 772
Net loss in fair value through income statement	-271	-855
Other operating (expense) / income	-378 816	39 917

Taxes:

In thousands of Euro	January-June 2020	January-June 2019
Withholding tax on interest received	-4 505	-2 733
Deferred tax	1 112	-1 889
Total tax expense	-3 393	-4 622

3. Fair value hierarchy

Financial assets and liabilities

Fair value hierarchy of financial instruments

In thousands of Euro	30 June 2020	31 December 2019
Derivative assets	50 185	37 142
Derivative liabilities	-3 657	-12 928
Valuation techniques based on observable market data (Level 2)	46 528	24 214
Total financial instruments at fair value	46 528	24 214

* Short term deposits are included in the balance sheet in cash and cash equivalents and in short term investments

As of 30 June 2020 the carrying amount of bonds issued is EUR 9 251 million (31 December 2019: EUR 5 321 million), compared to a fair value of EUR 9 757 million (31 December 2019: EUR 5 653 million). This fair value is categorised as Level 2, measured on the basis of quoted prices. For all other financial assets and liabilities, the carrying amount is a reasonable approximation of the fair value.

There have been no significant transfers between the different hierarchy levels during the six-month period ended 30 June 2020 and the six-month period ended 30 June 2019. As of 30 June 2020 there were no financial instruments within the category Level 1 – prices quoted in the active markets and Level 3 – valuation techniques based on unobservable input.

4. Share capital, other reserves and legal reserves

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

At the Annual General meeting of NFI held on 24 April 2019, NFI decided to carry forward the 2018 result.

At the Annual General meeting of NFI held on 28 April 2020, NFI decided to carry forward the 2019 result.

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 30 June 2020 the net wealth tax reserve is EUR 3 630 thousand (31 December 2019: EUR 3 630 thousand) of which EUR 996 thousand (2019: EUR 996 thousand) is distributable to the shareholder.

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.

5. Dividends

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting of NFI. At the Board of Directors Meeting of NFI held on 28 April 2020, the Board decided not to propose any dividend payment to the shareholder.

6. Debt securities

Bonds

During the six-month period January-June 2020, a series bonds were issued for a nominal value of EUR 4 500 million and a bonds was repaid at maturity for EUR 500 million.

Commercial Paper

The outstanding amounts of commercial paper are EUR 1 794 million as at 30 June 2020 compared to EUR 2 346 million as at 31 December 2019.

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

7. Transactions with related parties

Grant, receipt and repayments of loans with Nestlé Group companies for the six-month period January-June 2020 were as follows:

In thousands of Euro	January-June 2020	January-June 2019
Loans granted to Nestlé Group companies excluding accrued interest	3 533 694	11 132 258
Repayment of loans by Nestlé Group companies excluding accrued interest	-408 015	-10 639 543
Net loans and advances repaid by Nestlé Group companies	3 125 679	492 715
Loans received from Nestlé Group companies excluding accrued interest	5 458 793	-
Repayment of loans to Nestlé Group companies excluding accrued interest	-5 596 246	-1 072 031
Net loans and advances repaid to Nestlé Group companies	-137 453	-1 072 031

8. Impacts of COVID-19

On March 11, 2020, the World Health Organization designated a new coronavirus disease (“COVID-19”) as a global pandemic. Governments around the world have implemented public health and social measures to slow the transmission of the virus. These include physical and social distancing measures (cancellation of events and limitations on mass gatherings, orders to stay at or work from home, closure of schools), movement measures (significant restrictions on domestic and international travel, implementing quarantines or isolation of arriving travelers). These measures have had a significant impact on certain businesses (particularly tourism, retail and restaurants), leading to economic fallout and uncertainty.

The Company has assessed the consequences of the COVID-19 pandemic on the Unaudited Financial Statements for the six-month period ended 30 June 2020, specifically considering the impacts on key judgements and significant estimates as detailed on page 16 of the 2019 Financial Statements of the Company. The Company will continue to monitor these areas of increased risk for material changes.

Liquidity and financing of the Nestlé Group and impact on NFI

The Group had sufficient liquidity and access to committed credit facilities to meet all short-term financial obligations. Several measures have been taken to secure further liquidity such as issuing Eurobonds in April and May 2020 totalling EUR 4.5 billion using NFI, extending debt maturities and reducing the weight of commercial papers. The ratio non-current debt to net debt of the Company has increased from 44% in June 2019 to 84% in June 2020.

Financial risks continue to be actively managed, in line with the NFI normal risk management approach as described on pages 29 to 32 of the 2019 Financial Statements of the Company.

9. Events after the balance sheet date

There have been no significant events after the balance sheet date.

Responsibility Statement

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

- (a) the Unaudited Condensed Interim Financial Statements of NFI for the six-month period ended 30 June 2020, which have been prepared in accordance with IAS 34 Condensed Interim Financial Reporting 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 as required by DTR 4.2.4; and
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7.

26 August 2020