



Good Food, Good Life

**NESTLÉ FINANCE INTERNATIONAL LTD.**

**(Société Anonyme)**

**Annual Financial Report**

**Management Report**

**and**

**Financial Statements**

**1 January – 31 December 2020**

**(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**

## Contents

1. Management Report .....	2-5
2. Report of the Réviseur d'Entreprises Agréé .....	6-10
3. Financial Statements for the year ended 31 December 2020.....	11-34
4. Responsibility Statement .....	35

## Nestlé Finance International Ltd.

Nestlé Finance International Ltd. (“NFI” or the “Company”) presents its annual financial report for the financial year ended 31 December 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.

### 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 2020, a total equivalent of EUR 11 858 million of loans and advances granted to Nestlé Group companies was outstanding, compared to EUR 10 919 million as at 31 December 2019. 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 2020.

Total assets increased at 31 December 2020 (EUR 13 692 million) as compared to 31 December 2019 (EUR 11 254 million). The increase in total assets (by EUR 2 438 million) results mainly from an increase in loans and advances granted to Nestlé Group companies (by EUR 940 million), from an increase in derivative assets (by EUR 8 million), and a decrease in cash and cash equivalents (by EUR 157 million), from an increase in short term investments (by EUR 1 426 million) and an increase in deferred tax assets (by EUR 15 million). On the liabilities side, debt securities (bonds and commercial paper) outstanding at 31 December 2020 (EUR 11 815 million) increased by EUR 4 148 million as compared to 31 December 2019 (EUR 7 667 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 2020 (EUR 1 777 million) decreased by EUR 1 398 million as compared to 31 December 2019 (EUR 3 175 million).

The operations reported a net loss of EUR 46.2 million for the financial year ended 31 December 2020 compared to a net gain of EUR 13 million for the financial year ended 31 December 2019.

Net loss before tax for the financial year ended 31 December 2020 was EUR 52.4 million, compared to a net gain before tax of EUR 23.3 million for the financial year ended 31 December 2019. The movement was due to a decrease in interest income (by EUR 7.8 million) resulting from the loans and advances granted to Nestlé Group companies, an increase in interest expense (by EUR 17.7 million) resulting from an increase of the debt securities, an increase in net fee and commission income (by EUR 465 million) arising from fluctuations of foreign exchange rates borne by a related party; partially offset by an increase in other operating expense (by EUR 522.8 million) resulting from foreign exchange loss on non-EUR denominated instruments and an increase in financial income (by EUR 7.8 million).

NFI's net operating cash outflow was EUR 4 342 million for the financial year ended 31 December 2020 compared to net operating cash inflow of EUR 2 110 million for the financial year ended 31 December 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) 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 2020, 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**

There have not been any significant events after the balance sheet date.

### **Future developments**

It is expected that NFI's business activities will remain unchanged in 2021. 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 2020, the total current assets is EUR 12 176 million and the total current liabilities is EUR 3 891 million. NFI will be able to face the current debt with the current asset available. For the next year, 75% 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.

The loss of this year is clearly generated from the foreign exchange variation, since 2008 it is the second time in NFI's history that this case happened. A big impact is generated from the GBP, MXN, BRL and RUB exchange rate versus NFI functional and presentation currency.

## Independent auditor's report

To the Shareholder of  
Nestlé Finance International Ltd.  
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. (the "Company" or "NFI"), which comprise the statement of financial position as at 31 December 2020, 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 2020, 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.

#### Other Matter

The financial statements of Nestlé Finance International Ltd. for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those statements on 2 April 2020.

#### 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 Ethics Standards Board for Accountants' Code of Ethics for Professional 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 reviewed 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 reviewed new hedge relationships entered into and validated the process around ensuring compliance with the requirements of IFRS 9.

### 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 2020, the current portion of loans and advances granted to Nestlé entities amounted to KEUR 10,370,595 whilst the non-current portion amounted to KEUR 1,487,259 both totalling K EUR 11,857,854 and representing 86.6% 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 2020 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 and taking into account the impact of Covid-19, 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:

- Inspecting legal documentation related to the Loans.
- Verifying 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.
- Assessing the methods and assumptions applied by Management in the ECL analysis.
- Assessing 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.
- Performing an overall assessment of the ECL provision to determine if they were reasonable considering the Company’s portfolio, risk profile, credit risk management policies and the macroeconomic environment linked to Covid-19.

Assessing 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.

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.

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 2020 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 1 year.

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 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

Luxembourg, 6 April 2021

**3. Financial Statements for the year ended 31 December 2020**

**Nestlé Finance International Ltd. (“NFI”)**

**(Société Anonyme)**

**Financial Statements**

**(Audited)**

**1 January – 31 December 2020**

**Balance sheet as at 31 December 2020**

In thousands of Euro	Notes	31 December 2020	31 December 2019
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	(4)	125 508	282 269
Short term investments	(4)	1 426 256	-
Derivative assets	(3/4)	45 048	37 142
Loans and advances to Nestlé Group companies	(4)	10 370 595	2 063 221
Current tax assets	(4)	2 581	3 001
Other assets	(4/5)	206 176	572
<b>Total current assets</b>		<b>12 176 164</b>	<b>2 386 205</b>
<b>Non-current assets</b>			
Loans and advances to Nestlé Group companies	(4)	1 487 259	8 855 040
Deferred tax assets	(5)	28 244	12 993
Property, plant and equipment		-	1
<b>Total non-current assets</b>		<b>1 515 503</b>	<b>8 868 034</b>
<b>Total assets</b>		<b>13 691 667</b>	<b>11 254 239</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank overdrafts	(4)	-	3 223
Derivative liabilities	(3/4)	10 178	12 928
Loans and advances from Nestlé Group companies	(4)	1 776 749	3 174 714
Debt securities issued	(4/8)	2 061 148	2 845 420
Other liabilities	(4/5)	43 284	303 189
<b>Total current liabilities</b>		<b>3 891 359</b>	<b>6 339 474</b>
<b>Non-current liabilities</b>			
Debt securities issued	(4/8)	9 753 377	4 821 172
<b>Total non-current liabilities</b>		<b>9 753 377</b>	<b>4 821 172</b>
<b>Total liabilities</b>		<b>13 644 736</b>	<b>11 160 646</b>
<b>Equity</b>			
Share capital	(6)	440	440
Share premium and other premiums	(6)	102 000	102 000
Hedging reserve	(6)	52	477
Legal reserve	(6)	44	44
Other reserve	(6)	4 955	4 955
Accumulated losses		-60 560	-14 323
<b>Total equity attributable to shareholders of the company</b>		<b>46 931</b>	<b>93 593</b>
<b>Total liabilities and equity</b>		<b>13 691 667</b>	<b>11 254 239</b>

The accompanying notes form an integral part of the financial statements

**Income statement for the year ended 31 December 2020**

In thousands of Euro	Notes	Year 2020	Year 2019
Interest income		169 987	177 718
Interest expense		-94 497	-76 715
<b>Net interest income</b>	(2)	<b>75 490</b>	<b>101 003</b>
Net fee and commission expense from Nestlé Group companies	(2)	<b>201 896</b>	<b>-263 161</b>
Financial income / (expense)	(2)	4 968	-2 870
Other operating income / (expense)	(2)	-333 260	189 545
<b>Operating profit / (loss)</b>		<b>-50 906</b>	<b>24 517</b>
Administration expense		-1 486	-1 233
<b>Profit / (loss) before tax</b>		<b>-52 392</b>	<b>23 284</b>
Taxes	(2)	6 155	-10 259
<b>Profit / (loss) for the year attributable to shareholders of the company</b>		<b>-46 237</b>	<b>13 025</b>

The accompanying notes form an integral part of the financial statements

### **Statement of comprehensive (loss) / income for the year ended 31 December 2020**

In thousands of Euro	Year 2020	Year 2019
<b>Profit / (Loss) for the year recognised in the income statement</b>	<b>-46 237</b>	<b>13 025</b>
Adjustments on cost of hedge reserve		
Recognised in hedging reserve, net of taxes	-425	160
Items that are or may be reclassified subsequently to the income statement	-425	160
<b>Other Comprehensive income / (Loss) for the year</b>	<b>-425</b>	<b>160</b>
<b>Total comprehensive income / (Loss) for the year</b>	<b><u>-46 662</u></b>	<b><u>13 185</u></b>
attributable to shareholders of the company	-46 662	13 185

### **Statement of changes in equity for the year ended 31 December 2020**

In thousands of Euro	Notes	Share capital	Share premium and other premiums	Hedging reserve	Legal reserve	Other reserve	Retained earnings	Total equity attributable to shareholders of the company
<b>Equity as at 31 December 2018</b>		<b>440</b>	<b>102 000</b>	<b>317</b>	<b>44</b>	<b>4 955</b>	<b>-27 348</b>	<b>80 408</b>
<b>Gains and losses</b>								
Gain for the year		-	-	-	-	-	13 025	13 025
Adjustments on cost of hedge reserve	(6)	-	-	160	-	-	-	160
<b>Total comprehensive income for the year</b>		-	-	<b>160</b>	-	-	<b>13 025</b>	<b>13 185</b>
<b>Equity as at 31 December 2019</b>		<b>440</b>	<b>102 000</b>	<b>477</b>	<b>44</b>	<b>4 955</b>	<b>-14 323</b>	<b>93 593</b>
<b>Gains and losses</b>								
Loss for the year		-	-	-	-	-	-46 237	-46 237
Adjustments on cost of hedge reserve	(6)	-	-	-425	-	-	-	-425
<b>Total comprehensive income for the year</b>		-	-	<b>-425</b>	-	-	<b>-46 237</b>	<b>-46 662</b>
<b>Equity as at 31 December 2020</b>		<b>440</b>	<b>102 000</b>	<b>52</b>	<b>44</b>	<b>4 955</b>	<b>-60 560</b>	<b>46 931</b>

The accompanying notes form an integral part of the financial statements

### **Cash flows statement for the year ended 31 December 2020**

In thousands of Euro	Notes	Year 2020	** Restated Year 2019
<b>Cash flows from operating activities:</b>			
(Loss) / Profit before taxation for the year		-52 392	23 284
Adjustments for:			
Depreciation		1	-
Foreign exchange gain for loans, debt securities and derivatives		328 759	-78 843
Fair value of debt securities		2 873	6 419
Interest income	(2)	-169 987	-177 718
Interest expense	(2)	94 497	76 715
Change in other assets excluding prepaid and accrued income	(5)	-205 604	1 552
Change in other liabilities excluding accrual and deferred income	(5)	-278 336	224 433
Change in short term investments including those recognised directly in equity		-1 426 256	-
Net loans and advances to Nestlé Group companies excluding intra group interest receivable	(9)	-1 485 833	484 423
Net loans and advances from Nestlé Group companies excluding intra group interest payable	(9)	-1 240 877	1 452 693
Interest received net of withholding tax		167 093	173 325
Interest paid		-75 862	-74 663
Income taxes paid		47	-1 674
<b>Net cash (used in) / from operating activities</b>		<b>-4 341 877</b>	<b>2 109 946</b>
<b>Financing activities</b>			
Change in derivative assets including those recognised directly in equity		-8 331	-4 333
Change in derivative liabilities	(4)	-2 750	-1 799
Bonds issued	(8)	5 944 073	-
Commercial paper issued	(8)	29 574 785	53 432 850
Bonds repaid	(8)	-500 000	-500 000
Commercial paper repaid	(8)	-30 819 840	-54 854 738
<b>Net cash from / (used in) financing activities</b>		<b>4 187 937</b>	<b>-1 928 020</b>
<b>Effects of the exchange rate changes on cash</b>		<b>402</b>	<b>-6 214</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>-153 538</b>	<b>175 712</b>
Net cash and cash equivalents at beginning of year		279 046	103 334
<b>Net cash and cash equivalents at end of year *</b>	(4)	<b><u>125 508</u></b>	<b><u>279 046</u></b>

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

\*\* Comparative information is restated to conform with current year presentation, Change in derivative assets including those recognised directly in equity, change in derivative liabilities, bonds issued, commercial paper issued, bonds repaid and commercial paper repaid have been moved under financing activities from cash flows from operating activities.

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 2020 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.

NFI prepares its financial statements on the basis of the going concern convention. NFI's debt instruments are guaranteed by Nestlé S.A. (see Note 10 on Guarantees).

The financial statements were authorised for issuance by the Board of Directors on 25 March 2021, and are subject to approval by the Annual General Meeting on 28 April 2021.

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

#### **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. Actual results may differ from these estimates.

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 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 impacts of the COVID-19 on those judgements and uncertainties have been described in Note 14.

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, loans granted to third parties, 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, being a weighted average percentage based on no historical experience of loss for default in the past and Market default probability, 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 60% (2019:60%), 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 informed 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 informed 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.

### **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 10 November 2020, 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 2020.

### **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**

NFI has applied as from 1 January 2020, the following new standards.

IFRS 9 and IFRS 7 – Hedge accounting

IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. Therefore, NFI believes the current market structure supports the continuation of hedge accounting as at 31 December 2020 and to not have a material effect.

### **Improvements and other amendments to IFRS/IAS**

A number of other existing standards have been modified on miscellaneous points with effect from 1 January 2020. None of these changes had a material effect on NFI's financial statements.

### **Changes in accounting standards that may affect NFI after 31 December 2020**

There are no other standards effective after 31 December 2020, including the Phase 2 of the amendments to IFRS 9 and IFRS 7 related to the Interest Rate Benchmark Reform, that would be expected to have material impact for NFI.

## 2. Operating income and taxes

Net interest income:

In thousands of Euro	Year 2020	Year 2019
<b>Interest income from:</b>		
Cash and cash equivalents	75	658
Loans and advances to Nestlé Group companies	169 912	177 060
<b>Interest income</b>	<b>169 987</b>	<b>177 718</b>
<b>Interest expense from:</b>		
Cash and cash equivalents	-222	-
Loans and advances from Nestlé Group companies	-10 016	-9 116
Debt securities issued	-84 259	-67 599
<b>Interest expense</b>	<b>-94 497</b>	<b>-76 715</b>
<b>Net interest income</b>	<b>75 490</b>	<b>101 003</b>

Net fee and commission

In thousands of Euro	Year 2020	Year 2019
Fee and commission income from Nestlé Group companies	329 658	-
Fee and commission expense to Nestlé Group companies	-127 762	-263 161
<b>Net fee and commission income</b>	<b>201 896</b>	<b>-263 161</b>

Financial expense:

In thousands of Euro	Year 2020	Year 2019
Expected credit loss on financial assets increase / (decrease)	4 968	-2 870
<b>Financial expense</b>	<b>4 968</b>	<b>-2 870</b>

Other operating income / (expense):

In thousands of Euro	Year 2020	Year 2019
Net foreign exchange gain / (expense)	-332 989	189 274
Net gain / (loss) in fair value through income statement	-271	271
<b>Other operating income / (expense)</b>	<b>-333 260</b>	<b>189 545</b>

The variation of the Net foreign exchange expense is mainly due to the fluctuation of the currencies USD, GBP, RUB and MXN.

Taxes:

In thousands of Euro	Year 2020	Year 2019
Net wealth tax	-467	-364
Withholding tax on interest received	-8 629	-5 446
Deferred tax (decrease) / increase (see calculation below)	15 251	-4 449
<b>Total tax (expense) / gain</b>	<b>6 155</b>	<b>-10 259</b>

In thousands of Euro	Year 2020	Year 2019
Profit / (Loss) for the year	-46 237	13 025
Total tax income / (expense)	6 155	-10 259
<b>Profit / (Loss) before tax</b>	<b>-52 392</b>	<b>23 284</b>
Withholding tax on interest received	-8 629	-5 446
<b>Profit / (Loss) before corporate income tax and after withholding tax</b>	<b>-61 021</b>	<b>17 838</b>
Tax using NFI's domestic tax rate 24,94% (2019: 24,94%)	15 251	-4 449
Net wealth tax	-467	-364
Withholding tax on interest received	-8 629	-5 446
<b>Total tax (expense) / income</b>	<b>6 155</b>	<b>-10 259</b>

Fees charged by Ernst & Young S.A. ("EY") (2019: KPMG Luxembourg, Société coopérative) and other member firms of the EY network (2019: KPMG network) during the year ended December 31 were as follows

In thousands of Euro	EY	Year 2020	KPMG	Year 2019
Legal annual audit fees		-45		-42
Fees from other assurance services		-		-20
<b>Fees charged by EY network (2019: KPMG network)</b>		<b>-45</b>		<b>-62</b>

### 3. Derivative assets and liabilities

By type

In thousands of Euro	Contractual or notional amounts		Fair value assets		Fair value liabilities	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019	31 December 2020	31 December 2019
<b>Fair value hedges</b>						
Currency forwards and swaps	387 727	2 118 983	-	7 134	10 178	12 928
Interest rate swaps	-	843 731	-	30 008	-	-
Interest rate and currency swaps	819 121	-	35 477	-	-	-
<b>Undesignated</b>						
Currency forwards and swaps	1 435 386	-	9 571	-	-	-
<b>Total</b>	<b>2 642 234</b>	<b>2 962 714</b>	<b>45 048</b>	<b>37 142</b>	<b>10 178</b>	<b>12 928</b>
<b>Conditional offsets *</b>						
Derivative assets and liabilities			-2 577	-5 523	-2 577	-5 523
<b>Balances after conditional offsets</b>			<b>42 471</b>	<b>31 619</b>	<b>7 601</b>	<b>7 405</b>

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

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 2020	Year 2019
On hedged items	-21 332	-109 405
On hedging instruments	22 197	110 390

## 4. Financial instruments

### Financial assets and liabilities

#### By class

In thousands of Euro	31 December 2020	31 December 2019
Cash and cash equivalents	125 508	282 269
Short term investments	1 426 256	-
Derivative assets	45 048	37 142
Loans and advances to Nestlé Group companies	11 857 854	10 918 261
Other financial assets (a)	206 176	572
<b>Total financial assets</b>	<b>13 660 842</b>	<b>11 238 244</b>
Bank overdrafts	-	3 223
Derivative liabilities	10 178	12 928
Loans and advances from Nestlé Group companies	1 776 749	3 174 714
Debt securities issued	11 814 525	7 666 592
Other financial liabilities (a)	43 284	303 189
<b>Total financial liabilities</b>	<b>13 644 736</b>	<b>11 160 646</b>
<b>Net financial position</b>	<b>16 106</b>	<b>77 598</b>

(a) Refer to Note 5.

#### By category

In thousands of Euro	31 December 2020			31 December 2019		
	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)	3 110	-	3 110	79 618	-	79 618
Time deposit (a)	122 398	-	122 398	202 651	-	202 651
Short term investments	-	1 426 256	1 426 256	-	-	-
Loans and receivables (a)	12 064 030	-	12 064 030	10 918 833	-	10 918 833
Liquid assets and non-current financial assets	12 189 538	1 426 256	13 615 794	11 201 102	-	11 201 102
Derivative assets	-	45 048	45 048	-	37 142	37 142
<b>Total financial assets</b>	<b>12 189 538</b>	<b>1 471 304</b>	<b>13 660 842</b>	<b>11 201 102</b>	<b>37 142</b>	<b>11 238 244</b>
Loans and payables (a)	1 820 033	-	1 820 033	3 477 903	-	3 477 903
Financial debt (b)	11 814 525	-	11 814 525	7 669 815	-	7 669 815
Derivative liabilities	-	10 178	10 178	-	12 928	12 928
<b>Total financial liabilities</b>	<b>13 634 558</b>	<b>10 178</b>	<b>13 644 736</b>	<b>11 147 718</b>	<b>12 928</b>	<b>11 160 646</b>
<b>Net financial position</b>	<b>- 1 445 020</b>	<b>1 461 126</b>	<b>16 106</b>	<b>53 384</b>	<b>24 214</b>	<b>77 598</b>
of which at fair value	-	1 461 126	1 461 126	-	24 214	24 214

(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 2020	31 December 2019
Bonds	11 444 873	5 653 053
Short term investments	1 426 256	-
<b>Prices quotes in active markets (Level 1)</b>	<b>12 871 129</b>	<b>5 653 053</b>
Derivative assets	45 048	37 142
Derivative liabilities	-10 178	-12 928
<b>Valuation techniques based on observable market data (Level 2)</b>	<b>34 870</b>	<b>24 214</b>
<b>Valuation techniques based on unobservable input (Level 3)</b>	<b>-</b>	<b>-</b>
<b>Total financial instruments at fair value</b>	<b>12 905 999</b>	<b>5 677 267</b>

There have been no significant transfers between the different hierarchy levels in 2020.

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 the bonds and short term investments which are Level 1 (prices quoted in active markets). Fair value adjustment of the bonds are included in these financial statements for disclosure purposes only, see Note 8.

### Contractual maturities of financial liabilities and derivatives

The tables below shows the liabilities at 31 December 2020 and 31 December 2019 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		
2020	Loans and advances from Nestlé Group companies	1 776 749	-	-	-	-	1 776 749	1 776 749
	Commercial paper	938 396	123 780	-	-	-	1 062 176	1 062 045
	Bonds	1 875	1 098 430	935 930	2 777 927	6 687 751	11 501 913	10 752 480
	Debt securities issued	940 271	1 222 210	935 930	2 777 927	6 687 751	12 564 089	11 814 525
	Bank overdrafts, tax and other liabilities	43 284	-	-	-	-	43 284	43 284
	Gross amount receivable from currency derivatives	376 343	11 384	-	-	-	387 727	387 628
	Gross amount payable from currency derivatives	-385 750	-11 861	-	-	-	-397 611	-397 806
	Trading derivatives receivable	1 435 387	-	-	-	-	1 435 387	1 435 645
	Trading derivatives payable	-1 426 248	-	-	-	-	-1 426 248	-1 426 073
	Non currency derivative	-	12 426	12 590	10 638	-	35 654	35 476
	Net derivatives	-268	11 949	12 590	10 638	-	34 909	34 870

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		
2019	Loans and advances from Nestlé Group companies	3 174 714	-	-	-	-	3 174 714	3 174 714
	Commercial paper	2 137 475	212 922	-	-	-	2 350 397	2 345 501
	Bonds	1 875	572 296	1 067 921	2 435 323	1 717 500	5 794 915	5 321 090
	Debt securities issued	2 139 350	785 218	1 067 921	2 435 323	1 717 500	8 145 312	7 666 591
	Bank overdrafts, tax and other liabilities	306 412	-	-	-	-	306 412	306 412
	Gross amount receivable from currency derivatives	1 950 680	168 303	-	-	-	2 118 983	2 114 439
	Gross amount payable from currency derivatives	-1 953 211	-166 119	-	-	-	-2 119 330	-2 120 234
	Non currency derivative	-	8 598	8 765	13 017	-	30 380	30 009
	Net derivatives	-2 531	10 782	8 765	13 017	-	30 033	24 214

\* 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 2020	31 December 2019
Other financial assets:		
Intra Nestlé Group other receivables (a)	205 435	-
Other receivables	741	572
<b>Total other assets</b>	<b>206 176</b>	<b>572</b>
Other financial liabilities:		
Intra Nestlé Group other payables	2 098	280 616
Other payables	1 617	1 340
Accruals and deferred income	39 569	21 233
<b>Total other liabilities</b>	<b>43 284</b>	<b>303 189</b>

### Deferred tax assets

In thousands of Euro	31 December 2020	31 December 2019
Opening Balance	12 993	17 442
Increase / Decrease (note 1)	15 251	-4 449
<b>Closing Balance</b>	<b>28 244</b>	<b>12 993</b>

## 6. Share capital, share premium and other reserves:

	31 December 2020	31 December 2019
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 2020 and as at 31 December 2019, 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 2020 the net wealth tax reserve is EUR 3 630 thousand (2019: EUR 3 630 thousand) of which EUR 1 308 thousand (2019: EUR 996 thousand) is distributable to the shareholder.

The movements in other reserve for the period ended 31 December 2020 were as follows:

In thousands of Euro	31 December 2020	31 December 2019
Opening Balance	4 955	4 955
Substraction / Addition	-	-
<b>Closing Balance</b>	<b>4 955</b>	<b>4 955</b>

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 2020 and as at 31 December 2019, the hedging cost reserve EUR 52 thousand (2019: EUR 477 thousand) associated with the fair value hedges is not material.

## 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 39 072 thousand (i.e. 0.33% over EUR 11 840 091 thousand) (2019: EUR 70 816 thousand i.e. 0.65% over EUR 10 894 762 thousand). EUR 39 072 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 2020, the actual equity amounts to EUR 46 931 and is therefore above the minimum amount defined above.

## 8. Debt securities:

### Bonds

The outstanding amounts of bonds at 31 December 2020 and 31 December 2019 were as follows:

In thousands of Euro	Interest rates		Year of issue/maturity	Comments	31 December 2020	31 December 2019
	Nominal	Effective				
Face value						
EUR 850.000 1,75 percent	1,75%	1,89%	2012-2022		847 970	846 802
EUR 500.000 1,25 percent	1,25%	1,30%	2013-2020		-	499 919
EUR 500.000 2,13 percent	2,13%	2,20%	2013-2021		499 736	499 359
EUR 500.000 0,75 percent	0,75%	0,89%	2014-2021		499 366	498 629
EUR 500.000 0,75 percent	0,75%	0,92%	2015-2023	(b)	506 525	507 460
EUR 500.000 0,38 percent	0,38%	0,54%	2017-2024		497 480	496 661
EUR 750.000 1,25 percent	1,25%	1,31%	2017-2029		745 756	745 306
EUR 750.000 1,75 percent	1,75%	1,82%	2017-2037		741 773	741 360
GBP 400.000 2,25 percent	2,25%	2,34%	2012-2023	(a)	466 038	485 595
EUR 1.000.000 1,13 percent	1,13%	1,27%	2020-2026		992 699	-
EUR 1.000.000 1,50 percent	1,50%	1,63%	2020-2030		988 996	-
EUR 850.000 0,13 percent	0,13%	0,25%	2020-2027		842 537	-
EUR 650.000 0 percent	0,00%	0,05%	2020-2024		648 786	-
EUR 1.000.000 0,38 percent	0,38%	0,56%	2020-2032		979 963	-
EUR 500.000 0 percent	0,00%	-0,26%	2020-2025		506 393	-
EUR 500.000 0 percent	0,00%	0,16%	2020-2033		490 433	-
EUR 500.000 0,38 percent	0,38%	0,40%	2020-2040		498 028	-
<b>Total</b>					<b>10 752 479</b>	<b>5 321 091</b>
of which due in twelve months					999 102	499 919
of which due in the second year					847 970	997 988
of which due between three to five years					2 625 222	2 336 518
of which due after five years					6 280 185	1 486 666

(a) Subject to an interest rate swap

(b) Out of which EUR 375 million is subject to an interest rate swap (2019: EUR 375 million)

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

Some bonds are hedged by interest rate derivatives. The fair value of these derivatives is included within derivative assets for EUR 35 477 thousand (2019: EUR 30 008 thousand).

Issue and repayment of bonds:

Several series of bonds were issued in 2020 for EUR 6 000 000 thousand gross minus of the loan origination cost of EUR 55 927 thousand (2019: none).

One series of bonds was repaid at maturity during the financial year ended 31 December 2020 for EUR 500 000 thousand (2019: EUR 500 000 thousand).

## Commercial Paper

The outstanding amounts of commercial paper at 31 December 2020 were as follows:

In thousands of Euro	31 December 2020	31 December 2019
<b>Commercial paper</b>	<b>1 062 046</b>	<b>2 345 501</b>
of which due within twelve months	1 062 046	2 345 501

The interest rates of the commercial papers are between -0.60% and 0.26% (2019: -0.32% and 2.53%).

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

During the year 2020 NFI issued for EUR 29 574 785 thousand (2019: EUR 53 432 850 thousand) and repaid for EUR 30 819 840 thousand (2019: EUR 54 854 738 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 loans are granted for a period of 3 years and have no guarantee. In 2020, interest rates on these loans are mainly ranged from Euribor or Libor 1 month to 6 months with a margin from 5 to 301bps (2019: 5 to 513bps). 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.

The balances of transactions with related parties at the financial year ended 31 December 2020 are given below:

In thousands of Euro	31 December 2020	31 December 2019
<b>Assets</b>		
Derivatives assets to Nestlé Group companies	35 477	30 008
Loans and advances to Nestlé Group companies excluding accrued interest	11 832 742	10 894 762
Accrued interest on loans to Nestlé Group companies	25 112	23 499
Other receivables from Nestlé Group companies	205 434	-
<b>Total</b>	<b>12 098 765</b>	<b>10 948 269</b>
<b>Liabilities</b>		
Loans and advances from Nestlé Group companies excluding accrued interest	1 776 749	3 174 657
Accrued interest on loans from Nestlé Group companies	-	57
Others payables to Nestlé Group companies	2 098	280 616
<b>Total</b>	<b>1 778 847</b>	<b>3 455 330</b>
<b>Net assets</b>	<b>10 319 918</b>	<b>7 492 939</b>

Grant, receipt and repayments of loans for the financial year ended 31 December 2020 were as follows:

In thousands of Euro	Year 2020	Year 2019
Loans granted to Nestlé Group companies excluding accrued interest	17 615 838	425 260
Repayment of loans by Nestlé Group companies excluding accrued interest	-16 130 005	-909 683
<b>Net loans and advances repaid by Nestlé Group companies</b>	<b>1 485 833</b>	<b>-484 423</b>
Loans received from Nestlé Group companies excluding accrued interest	11 728 181	17 823 021
Repayment of loans to Nestlé Group companies excluding accrued interest	-12 969 058	-16 370 328
<b>Net loans and advances repaid to Nestlé Group companies</b>	<b>-1 240 877</b>	<b>1 452 693</b>

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 2020	31 December 2019
Receivable from Nestlé S.A.	205 434	-
Payables to Nestlé S.A.	-	-280 564

In thousands of Euro	Year 2020	Year 2019
Other financial income from Nestlé S.A.	329 658	-
Other financial expenses to Nestlé S.A.	-127 329	-262 930

The ECL calculate is related to the loan granted to Nestlé Group companies (see Note 11) for EUR 4 968 thousand (2019: EUR-2 870 thousand).

## 10. Guarantees

Nestlé S.A. is the guarantor of NFI in respect of all debt securities issued for both the short and long term. The issuance programmes and guarantees applicable to NFI are: EUR 25 billion Global Commercial Paper Programme (2019: EUR 8 billion), EUR 2 billion Billets de Trésorerie French Commercial Paper Programme and Euro Medium Term Note (EMTN) Debt Issuance Programme (2019: 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 22 countries.

## 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 2020 and as at 31 December 2019, 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 2020		31 December 2019	
	Nominal	ECL calculated	Nominal	ECL calculated
A1	301,000	45	1,936,000	500
A3	3,519,779	634	172,000	28
Baa1	-	-	2,732,920	1,208
Baa2	810,815	389	251,250	121
Baa3	4,111,481	3,084	1,656,264	1,251
Ba1	88,506	82	616,588	1,205
Ba2	412,035	630	2,158,088	4,682
Ba3	651,799	1,779	518,701	2,613
B1	24,299	144	37,603	251
B2	76,363	733	45,859	469
Caa1	3,700	301	9,800	462
	<b>9,999,777</b>	<b>7,822</b>	<b>10,135,073</b>	<b>12,789</b>

## 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 2020						
	EUR	USD	GBP	BRL	MXN	RUB	others
Cash and cash equivalents	1 354	24 284	98 852	-	3	-	1 015
Short term investments	-	1 426 256	-	-	-	-	-
Derivative assets	10 870	9 572	24 606	-	-	-	-
Loans and advances to Nestlé Group companies	6 281 835	665 913	3 607 068	84 603	767 953	191 717	258 766
Current tax assets	2 581	-	-	-	-	-	-
Other financial assets	206 176	-	-	-	-	-	-
<b>Total financial assets</b>	<b>6 502 816</b>	<b>2 126 025</b>	<b>3 730 526</b>	<b>84 603</b>	<b>767 956</b>	<b>191 717</b>	<b>259 781</b>
Bank overdrafts	-	-	-	-	-	-	-
Derivative liabilities	-	10 178	-	-	-	-	-
Loans and advances from Nestlé Group companies	1 057 551	168 706	550 492	-	-	-	-
Debt securities issued	10 286 441	1 062 046	466 038	-	-	-	-
Other financial liabilities	43 284	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>11 387 276</b>	<b>1 240 930</b>	<b>1 016 530</b>	-	-	-	-
<b>Net financial position</b>	<b>-4 884 460</b>	<b>885 095</b>	<b>2 713 996</b>	<b>84 603</b>	<b>767 956</b>	<b>191 717</b>	<b>259 781</b>

In thousands of Euro	31 December 2019						
	EUR	USD	GBP	BRL	MXN	RUB	others
Cash and cash equivalents	228 552	53 028	-	-	-	-	689
Short term investments	-	-	-	-	-	-	-
Derivative assets	10 893	7 127	19 115	-	-	-	7
Loans and advances to Nestlé Group companies	5 623 414	734 934	3 634 816	117 348	87 769	151 426	568 554
Other financial assets	572	-	-	-	-	-	-
<b>Total financial assets</b>	<b>5 863 431</b>	<b>795 089</b>	<b>3 653 931</b>	<b>117 348</b>	<b>87 769</b>	<b>151 426</b>	<b>569 250</b>
Bank overdrafts	-	-	3 223	-	-	-	-
Derivative liabilities	-	12 921	-	-	-	-	7
Loans and advances from Nestlé Group companies	2 329 048	534 494	311 172	-	-	-	-
Debt securities issued	5 045 509	2 135 488	485 595	-	-	-	-
Other financial liabilities	303 189	-	-	-	-	-	-
<b>Total financial liabilities</b>	<b>7 677 746</b>	<b>2 682 903</b>	<b>799 990</b>	-	-	-	<b>7</b>
<b>Net financial position</b>	<b>-1 814 315</b>	<b>-1 887 814</b>	<b>2 853 941</b>	<b>117 348</b>	<b>87 769</b>	<b>151 426</b>	<b>569 243</b>

EUR per		Year ending rates	
		2020	2019
1 US Dollar	USD	1.230	1.121
1 Pound Sterling	GBP	0.901	0.853
1 Brazilian Real	BRL	6.391	4.516
1 Mexican Peso	MXN	24.451	21.190
1 Russian Ruble	RUB	91.969	69.489

## 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 92% (2019: 84%).

## 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 2020	Year 2019
Foreign currency	23 095	20 141
Interest rate	-126	-197
Foreign currency and interest rate combined	23 239	20 163

## 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 2020 (one part-time employee and three full-time employees during 2019). All these employees provide treasury and accounting services.

## **14. 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.

NFI has assessed the consequences of the COVID-19 pandemic on the Financial Statements, specifically considering the impacts on key judgements and significant estimates. NFI will continue to monitor these areas of increased risk for material changes.

### **Liquidity and financing**

NFI 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, May and December 2020 totalling EUR 6 billion, extending debt maturities and reducing the weight of commercial papers. Counterparty and foreign exchange risk continue to be actively managed, in line with the NFI’s normal risk management approach as described in Note 11.

## **15. Events after the balance sheet date**

There have not been any significant events after the balance sheet date.

#### **4. Responsibility Statement**

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

- (a) the financial statements, 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 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.

25 March 2021