



Nestlé

INTERIM REPORT
NESTLÉ (MALAYSIA) BERHAD
 (110925-W)
 (Incorporated in Malaysia)

The Directors are pleased to present the Interim Report for the period ended 30 September 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2010

	3 months ended 30 September		9 months ended 30 September	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Revenue - Sales of goods	991,076	886,812	3,062,426	2,793,601
Cost of sales	(663,418)	(583,421)	(2,045,894)	(1,857,373)
Gross profit	327,658	303,391	1,016,532	936,228
Operating expenses	(189,827)	(192,108)	(578,883)	(579,763)
Operating profit	137,831	111,283	437,649	356,465
Interest costs	(5,191)	(5,186)	(16,843)	(15,653)
Interest income	11	3	20	31
Share of post tax profit of an associate	1	311	(86)	243
Profit before tax	132,652	106,411	420,740	341,086
Tax expense	(19,465)	(26,651)	(68,601)	(75,517)
Profit after taxation	113,187	79,760	352,139	265,569
Minority interests	-	-	-	-
Profit after tax and minority interest	113,187	79,760	352,139	265,569
Net profit for the period	113,187	79,760	352,139	265,569
Other comprehensive income, net of tax				
Cash flow hedge	(2,900)	3,387	3,884	3,913
Total other comprehensive income for the period, net of tax	(2,900)	3,387	3,884	3,913
Total comprehensive income for the period	110,287	83,147	356,023	269,482
Basic earnings per share (sen)	48.27	34.01	150.17	113.25
Dividend per share - net (sen)	-	-	50.00	50.00
	AS AT END OF CURRENT QUARTER		AS AT PRECEDING FINANCIAL YEAR END	
Net assets per share attributable to equity holders (RM)	2.94		2.42	

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2009.

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2010**

	As at 30.09.2010 RM'000	As at 31.12.2009 RM'000
Non current assets		
Property, plant and equipment	843,803	860,253
Intangible assets	61,024	61,024
Investment in an associate	3,218	3,467
Deferred tax assets	3,922	7,379
Receivables, deposits and prepayments	23,891	22,923
	<u>935,858</u>	<u>955,046</u>
Current assets		
Receivables, deposits and prepayments	384,078	370,421
Inventories	382,231	354,381
Current tax assets	7,209	7,118
Cash and cash equivalents	50,511	25,751
	<u>824,029</u>	<u>757,671</u>
Total assets	<u>1,759,887</u>	<u>1,712,717</u>
Financed by:		
Capital and reserves		
Share capital	234,500	234,500
Reserves	454,202	332,679
Total equity	<u>688,702</u>	<u>567,179</u>
Non current liabilities		
Loans and borrowings	325,999	328,039
Employee benefits	48,411	48,411
Deferred tax liabilities	72,796	70,309
	<u>447,206</u>	<u>446,759</u>
Current liabilities		
Payables and accruals	595,633	622,228
Loans and borrowings	2,878	56,458
Taxation	25,468	20,093
	<u>623,979</u>	<u>698,779</u>
	<u>1,759,887</u>	<u>1,712,717</u>
Net assets per share attributable to shareholders (RM)	<u>2.94</u>	<u>2.42</u>

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2009.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR PERIOD ENDED 30 SEPTEMBER 2010**

	Non Distributable		Distributable	Total Equity RM'000
	<i>Share capital and share premium</i>	<i>Hedging reserve</i>	<i>Retained profits</i>	
	RM'000	RM'000	RM'000	
At 1 January 2009	267,500	(2,814)	251,069	515,755
Total comprehensive income for the period	-	3,913	265,569	269,482
Dividends paid:				
- 2008 Final	-	-	(187,600)	(187,600)
At 30 September 2009	267,500	1,099	329,038	597,637
At 1 January 2010	267,500	(109)	299,788	567,179
Total comprehensive income for the period	-	3,884	352,139	356,023
Dividends paid:				
- 2009 Final	-	-	(234,500)	(234,500)
At 30 September 2010	267,500	3,775	417,427	688,702

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2009.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR PERIOD ENDED
30 SEPTEMBER 2010**

	9 months ended 30.09.2010 RM'000	9 months ended 30.09.2009 RM'000
Cash flows from operating activities		
Profit before taxation	420,740	341,086
<i>Adjustments for non-cash items:</i>		
Amortisation and depreciation	74,955	62,394
Net interest expense	16,823	15,622
<i>Less:</i>		
(Increase)/Decrease in working capital	(64,224)	68,097
Income tax paid	(58,666)	(63,197)
Others	166	357
Net cash generated from operating activities	389,794	424,359
Cash flows from investing activities		
Purchase of property, plant and equipment	(58,340)	(163,282)
Others	269	567
Net cash used in investing activities	(58,071)	(162,715)
Cash flows from financing activities		
Interest paid	(16,843)	(15,653)
Repayment of borrowings	(50,016)	(43,145)
Dividend payment	(234,500)	(187,600)
Net cash used in financing activities	(301,359)	(246,398)
Net increase in cash and cash equivalents	30,364	15,246
Cash and cash equivalents as at 1 January	20,147	25,690
Cash and cash equivalents as at 30 September	50,511	40,936

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2009.

INTERIM FINANCIAL REPORT

Notes:

1 Basis of preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 30 September 2010 and has been prepared in compliance with *FRS 134: Interim Financial Reporting* issued by the Malaysian Accounting Standards Board ("MASB") and the Bursa Malaysia Securities Berhad Listing Requirements. The accounting policies and methods of computation adopted by the Group in this report are consistent with those adopted in the financial statements for the year ended 31 December 2009 except for those standards, amendments and interpretations which are effective from the annual period beginning 1 July 2009 and 1 January 2010. The adoption of these standards, amendments and interpretations have no material impact to these interim financial statements except for the adoption of the following standards which impact the presentation and disclosure aspect:

FRS 8 - Operating Segments
FRS101 - Presentation of Financial Statements (revised)

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2009.

2 There was no qualification made on the preceding audited financial statements.

3 The Group's operations are affected by economic cycles and festive seasons.

4 Items affecting assets, liabilities, equity, net income or cash flow.

There were no unusual items affecting assets, liabilities, equity, net income or cash flow of the Group.

a. Fixed Assets

As at the end of this quarter, the Group has acquired / disposed the following assets:

	3 months ended 30 September 2010		9 months ended 30 September 2010	
	Assets acquired RM'000	Assets disposed RM'000	Assets acquired RM'000	Assets disposed RM'000
Building (improvements and additions)	362	-	2,283	4
Plant and machinery	15,111	6	42,169	60
Tools and furniture	6,399	1	10,856	5
Motor vehicles	1,316	-	1,316	-
Information system	1,140	12	1,716	32
	24,328	19	58,340	101

b. Intangible Assets

There was no capitalisation of intangible assets in this quarter.

5 Changes in estimates

There were no significant changes in estimates for prior periods that have materially affected the results of this quarter.

6 Debts and equity security

There is no issuance of debts and equity security in this quarter.

7 Dividends paid

Dividends paid during the reporting period are as follows:

Final dividend for the financial year ended 31 December 2009

100.00 sen per share (single-tier)

Total

9 months ended 30 Sept 2010 (RM'000)
234,500
234,500

8 Operating segment

FRS 8 requires separate reporting of segmental information for operating segments. Operating segments reflect the Group's management structure and the way financial information is regularly reviewed by the Group's chief operating decision maker, which is defined as the Executive Board.

The Group is focused in two areas of activity, Food & Beverages and Others which includes Nutrition and Nestle Professional.

	9 months ended 30 September 2010		
	Food & Beverages	Others	Total
	RM'000	RM'000	RM'000
Segment revenues and results			
Sales	2,540,850	521,576	3,062,426
Operating profit	343,402	94,247	437,649
Profit before tax	329,373	91,367	420,740
Segment assets			
Segment assets	1,480,887	279,000	1,759,887

	9 months ended 30 September 2009		
	Food & Beverages	Others	Total
	RM'000	RM'000	RM'000
Segment revenues and results			
Sales	2,284,797	508,804	2,793,601
Operating profit	264,654	91,811	356,465
Profit before tax	252,076	89,010	341,086
Segment assets			
Segment assets	1,375,813	244,311	1,620,124

9 Valuation of property, plant and equipment

There were no changes or amendments to the valuation of property, plant and equipment from the previous annual financial statements.

10 Events subsequent to balance sheet date

There were no subsequent events to the balance sheet date.

11 Changes in the composition of the Group

There were no changes in the composition of the Group in this quarter.

12 Changes in contingent liabilities

As of the date of this report, there were no contingent liabilities to the Group.

13 Related party transactions

a. Nestle purchase raw materials from Phytes Biotek Sdn. Bhd. (PBSB) and Malaysia Cocoa Manufacturing Sdn. Bhd. (MCM). Biotropics Malaysia Berhad is the holding company of PBSB and Felda Global Ventures is an associate company of MCM. Mohd Rafik bin Shah Mohamad is deemed interested via his directorships in Nestle (Malaysia) Berhad, Biotropics Malaysia Berhad and Felda Global Ventures.

Purchase of raw materials from the above two companies as follows:

	3 months ended 30 Sept 2010 (RM'000)	9 months ended 30 Sept 2010 (RM'000)
Phytes Biotek Sdn. Bhd. (PBSB)	0	5
Malaysia Cocoa Manufacturing Sdn. Bhd. (MCM) *	13,698	23,290

* The amount shown for MCM is from 3 May 2010 - 30 September 2010 as Mohd. Rafik bin Shah Mohamad was only appointed as director of Felda Global Ventures with effect from 3 May 2010.

b. Transactions related to Nestlé S.A. and companies owned by Nestlé S.A. are as follows:

	3 months ended 30 Sept 2010 (RM'000)	9 months ended 30 Sept 2010 (RM'000)
IT shared service	4,927	16,481
Net interest expense	2,402	8,213
Purchases of goods and services	83,120	257,496
Sales of finished goods	215,276	644,249
Royalties	38,780	120,873

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS

1 Review of performance (Quarter 3, 2010 vs Quarter 3, 2009)

For the third quarter of 2010, the Group registered a turnover of RM 991.1 million, 11.8% higher than the same period last year. The commendable performance was contributed by both Domestic and Exports businesses.

The good growth momentum generated by the local economy sustained the consumer demand and spending. Leveraging on the improved domestic economic situation, most of the product categories performed well and registered a satisfactory growth. This is quite evident for Nestle Liquid Drinks and Chilled Dairy which achieved double digit growth. From a channel perspective, both retail and out-of home sales enjoyed good growth.

Capitalising on the investments made in major production lines for coffee and coffee creamers in the past 2 years, the exports business continued to perform well, registering a strong double digit growth for the quarter. The strong economic growth experienced within the South East Asian countries helped generate higher demand for the Group's Halal products.

As a consequence of input cost pressures and product sales mix, the gross profit margin deteriorated by 110bps against the previous corresponding period. Nevertheless, due to less marketing and promotional activities during the quarter and timing of some fixed overhead expenses, the profit margin before tax improved by 140 bps.

2 Review of performance (Year-to-date, 2010 vs Year-to-date, 2009)

For the first nine months ended 30 September 2010, the Group posted a turnover of RM3.1billion, 9.6% higher than the same period last year. The continued positive economic environment helped sustain the accelerating market demand. Leveraging on the improved economic situation, most of the domestic product categories performed well. This is quite evident for Nestle Liquid Drinks and Chilled Dairy which had a double digit growth achievement. From a channel perspective, both retail and out-of home sales enjoyed good growth.

With the additional capacity for coffee and coffee creamers made in the past two years, the Export business was able to capture the higher demand overseas. This was aided by the strong economic growth experienced within the South East Asian countries. From the start of this year, exports achieved a robust double digit growth. Against the same period last year, the export business has expanded from 20.9% to 23.9% of the total Group's sales.

The Group remained focused on managing unfavourable trends in input cost. For the period under review, the average price of cocoa powder doubled and skimmed milk powder was higher by 20%. These higher material costs were partially offset by savings from manufacturing efficiencies driven by internal improvement programmes, higher export volumes that helped absorb factory fixed costs and also aided by the stronger Ringgit. Resulting from these factors, the gross profit margin was 30bps lower than the previous period.

Whilst the turnover grew by 9.6%, the operating expenses remained flat. This was partially due to the timing of marketing and promotional activities scheduled in quarter 3 and quarter 4. The Nestle Continuous Excellence programme that is being rolled out across the organisation has also made a good impact on cost management. As a result, the profit margin before tax improved by 150bps.

The Halal tax incentives related to the substantial capital investments in the last three years helped reduce the tax rate. Against the same period last year, the net profit margin improved by 200bps.

3 Variation of results against previous quarter (Quarter 3, 2010 vs. Quarter 2, 2010)

Against the last quarter, the turnover at RM991million contracted by 5.7%. The higher operating profit margin was mainly due to strong marketing and promotional activities which took place in quarter 2.

4 Current year prospects

For the remaining 3 months, we are hopeful that the economic growth will be sustained as the signs of a double dip recession have been fading. The Group will leverage these positive external trends to continue growing both top and bottom line. It will also increase its marketing investment in line with Nestle's objective of being the leader in Nutrition, Health & Wellness, as well as an industry benchmark for its financial performance and trusted by all stakeholders.

5 Profit forecast

We do not issue any profit forecast.

6 Tax expense

- Current year tax
- Deferred tax for the current period

Taxation for this quarter 30.09.2010 RM'000	Cumulative year 30.09.2010 RM'000
9,821	63,950
9,644	4,651
19,465	68,601

7 Unquoted investments

Not applicable in this quarter.

8 Quoted investments

Not applicable to the Group.

9 Status of corporate proposals

There were no corporate proposals in this quarter.

10 Borrowings

Group Borrowings and Debt Securities are:

Short term - Unsecured loans

- Revolving credit
- Banker's acceptance

Short term - Secured loans

- Finance lease (payable within a year)

Total short term loans

As at 30.09.2010 RM'000
-
-
2,878
2,878

Long term - Unsecured loans

- Intra group loans

Long term - Secured loans

- Finance lease

Total long term loans

319,264
6,735
325,999

All the above debts are in Ringgit Malaysia.

11 Derivatives

Summary of outstanding derivative assets as at 30.09.2010 :

Type of derivatives	Notional Value RM'000	Fair Value RM'000	Ageing
Foreign exchange contracts	513,731	2,250	Less than 1 year
Commodity futures	73,031	2,033	Less than 1 year

12 Material litigation

As of the date of this report, there were no material litigations against the Group.

13 Dividend

No dividend is proposed in this quarter.

14 Basic earnings per share**a. Basic earnings per share**

The calculation of the basic earnings per share is based on the net profit attributable to ordinary shareholders of RM 352.1 million (RM 265.6 million in September 2009) and the number of ordinary shares outstanding of 234.5 million (234.5 million in September 2009)

b. Diluted earnings per share

Not applicable for the Group

BY ORDER OF THE BOARD

Mohd. Shah Bin Hashim (LS0006824)

Company Secretary

Date : October 28, 2010