



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 June 2012 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2012

	3 months ended 30 June		6 months ended 30 June	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Revenue - Sales of goods	1,149,522	1,040,114	2,313,650	2,112,874
Cost of sales	(761,604)	(700,909)	(1,539,907)	(1,411,662)
Gross profit	387,918	339,205	773,743	701,212
Operating expenses	(238,927)	(206,969)	(412,023)	(373,113)
Operating profit	148,991	132,236	361,720	328,099
Interest costs	(5,219)	(4,503)	(10,960)	(9,476)
Interest income	259	102	333	253
Share of post tax (loss)/profit of an associate	(23)	(61)	(258)	5
Profit before tax	144,008	127,774	350,835	318,881
Tax expense	(23,513)	(29,388)	(72,260)	(73,343)
Profit after taxation	120,495	98,386	278,575	245,538
Minority interests	-	-	-	-
Profit after tax and minority interest	120,495	98,386	278,575	245,538
Net profit for the period	120,495	98,386	278,575	245,538
Other comprehensive income, net of tax				
Cash flow hedge	(4,678)	(394)	21,367	2,065
Defined benefit plan actuarial gains	-	-	-	-
Total other comprehensive income for the period, net of tax	(4,678)	(394)	21,367	2,065
Total comprehensive income for the period	115,817	97,992	299,942	247,603
Basic earnings per share (sen)	51.38	41.96	118.80	104.71
Dividend per share - net (sen)	55.00	55.00	55.00	55.00
	AS AT END OF CURRENT QUARTER		AS AT PRECEDING FINANCIAL YEAR END	
Net assets per share attributable to equity holders (RM)	2.81		2.78	

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2011.

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012**

	As at 30.06.2012 RM'000	As at 31.12.2011 RM'000
Non current assets		
Property, plant and equipment	871,748	889,741
Intangible assets	61,024	61,024
Investment in an associate	2,952	3,210
Deferred tax assets	21,091	18,460
Receivables, deposits and prepayments	22,382	23,802
	<u>979,197</u>	<u>996,237</u>
Current assets		
Receivables, deposits and prepayments	447,673	444,854
Inventories	452,045	517,573
Current tax assets	110	176
Cash and cash equivalents	80,247	52,461
	<u>980,075</u>	<u>1,015,064</u>
Total assets	<u>1,959,272</u>	<u>2,011,301</u>
Financed by:		
Capital and reserves		
Share capital	234,500	234,500
Reserves	425,036	418,219
Total equity	<u>659,536</u>	<u>652,719</u>
Non current liabilities		
Loans and borrowings	215,725	337,711
Employee benefits	39,202	42,316
Deferred tax liabilities	71,400	63,815
	<u>326,327</u>	<u>443,842</u>
Current liabilities		
Payables and accruals	802,311	878,321
Loans and borrowings	103,649	4,223
Taxation	67,449	32,196
	<u>973,409</u>	<u>914,740</u>
	<u>1,959,272</u>	<u>2,011,301</u>
Net assets per share attributable to shareholders (RM)	<u>2.81</u>	<u>2.78</u>

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2011.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR PERIOD ENDED 30 JUNE 2012**

	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 2011	267,500	4,016	382,852	654,368
Cash flow hedge	-	2,065	-	2,065
Profit for the period	-	-	245,538	245,538
Total comprehensive income for the period	-	2,065	245,538	247,603
Dividends paid:				
- 2010 Final	-	-	(269,675)	(269,675)
At 30 June 2011	267,500	6,081	358,715	632,296
At 1 January 2012	267,500	(22,440)	407,659	652,719
Cash flow hedge	-	21,367	-	21,367
Profit for the period	-	-	278,575	278,575
Total comprehensive income for the period	-	21,367	278,575	299,942
Dividends paid:				
- 2011 Final	-	-	(293,125)	(293,125)
At 30 June 2012	267,500	(1,073)	393,109	659,536

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2011.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR PERIOD ENDED
30 JUNE 2012**

	6 months ended 30.06.2012 RM'000	6 months ended 30.06.2011 RM'000
Cash flows from operating activities		
Profit before taxation	350,835	318,881
<i>Adjustments for:</i>		
Amortisation, depreciation and impairment	50,151	50,506
Net interest expense	10,627	9,223
Decrease in working capital	27,493	34,914
Income tax paid	(39,109)	(36,928)
Others	(139)	(1,277)
Net cash generated from operating activities	399,858	375,319
Cash flows from investing activities		
Purchase of property, plant and equipment	(33,314)	(24,345)
Others	1,377	282
Net cash used in investing activities	(31,937)	(24,063)
Cash flows from financing activities		
Interest paid	(10,960)	(9,476)
Repayment of borrowings	(36,050)	(44,646)
Dividend payment	(293,125)	(269,675)
Net cash used in financing activities	(340,135)	(323,797)
Net increase in cash and cash equivalents	27,786	27,459
Cash and cash equivalents as at 1 January	52,461	22,313
Cash and cash equivalents as at 30 June	80,247	49,772

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2011.

INTERIM FINANCIAL REPORT

Notes:

1 Basis of preparation

This interim financial report is based on the unaudited financial statements for the quarter ended 30 June 2012 and has been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad and MFRS 134, *Interim Financial Reporting* in Malaysia and *International Financial Reporting Standards*. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2011.

These are the Group's interim financial statements for part of the period covered by the Group's first MFRS framework annual financial statements and MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards* has been applied. An explanation of how the transition to MFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 14.

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 June 2012		6 months ended 30 June 2012	
	Assets acquired	Assets disposed	Assets acquired	Assets disposed
	RM'000	RM'000	RM'000	RM'000
Building (improvements and additions)	2,056	585	3,327	585
Plant and machinery	15,618	64	20,508	66
Tools and furniture	2,833	143	7,505	193
Motor vehicles	-	177	698	291
Information system	1,016	-	1,276	21
	21,523	969	33,314	1,156

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:

	3 months ended 30 Jun 2012 (RM'000)	6 months ended 30 Jun 2012 (RM'000)
Final dividend for the financial year ended 31 December 2011 125.00 sen per share (single-tier)	293,125	293,125

8 Operating segment

MFRS 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 Nestlé Professional.

	6 months ended 30 June 2012		
	Food & Beverages	Others	Total
	RM'000	RM'000	RM'000
Segment revenues and results			
Sales	1,894,796	418,854	2,313,650
Operating Profit	294,341	67,379	361,720

	6 months ended 30 June 2011		
	Food & Beverages	Others	Total
	RM'000	RM'000	RM'000
Segment revenues and results			
Sales	1,720,556	392,318	2,112,874
Operating Profit	263,836	64,263	328,099

Both segments Food & Beverages (81% of total sales) and Others (19% of total sales) share the same Group's performance trend as elaborated in page 9.

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. Nestlé acquires services from Sanicare Hygiene Services Sdn Bhd and Cold Chain Network (M) Sdn Bhd. Dato' Mohd Rafik bin Shah Mohamad is deemed interested via his independent directorships in Nestlé (Malaysia) Berhad, Sanicare Hygiene Services Sdn. Bhd. and Cold Chain Network (M) Sdn. Bhd.

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

	3 months ended 30 Jun 2012 (RM'000)	6 months ended 30 Jun 2012 (RM'000)
Sanicare Hygiene Services Sdn. Bhd	16	31
Cold Chain Network (M) Sdn Bhd	1,516	3,237

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

	3 months ended 30 Jun 2012 (RM'000)	6 months ended 30 Jun 2012 (RM'000)
IT shared service	7,036	15,163
Net interest expense	1,889	4,533
Purchases of goods and services	109,810	219,955
Sales of finished goods	259,572	516,622
Royalties	50,590	102,027

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

14 Explanation of transition to MFRSs

As stated in note 1, these are the Group's consolidated interim financial report prepared in accordance with MFRSs.

In preparing the MFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with the previous FRSSs. An explanation of how the transition from the previous FRSSs to the new MFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany these tables.

Reconciliation of financial position

	As at 30.06.2011		
	FRSs RM'000	Effect of transition to MFRS RM'000	MFRSs RM'000
Non current assets			
Property, plant and equipment	870,956	-	870,956
Intangible assets	61,024	-	61,024
Investment in an associate	3,194	-	3,194
Deferred tax assets	8,431	8,974	17,405
Receivables, deposits and prepayments	23,484	-	23,484
	967,089	8,974	976,063
Current assets			
Receivables, deposits and prepayments	419,441	-	419,441
Inventories	404,242	-	404,242
Current tax assets	191	-	191
Cash and cash equivalents	49,772	-	49,772
	873,646	-	873,646
Total assets	1,840,735	8,974	1,849,709
Financed by:			
Capital and reserves			
Share capital	234,500	-	234,500
Reserves	370,460	27,336	397,796
Total equity	604,960	27,336	632,296
Non current liabilities			
Loans and borrowings	329,982	-	329,982
Employee benefits	40,853	-	40,853
Deferred tax liabilities	79,523	(18,362)	61,161
	450,358	(18,362)	431,996
Current liabilities			
Payables and accruals	745,155	-	745,155
Loans and borrowings	12,556	-	12,556
Taxation	27,706	-	27,706
	785,417	-	785,417
	1,840,735	8,974	1,849,709

14 Explanation of transition to MFRSs (continued)

Reconciliation of comprehensive income

	3 months ended 30 June 2011		
	FRSs RM'000	Effect of transition to MFRS RM'000	MFRSs RM'000
Revenue - Sales of goods	1,155,567	(115,453)	1,040,114
Cost of sales	(780,368)	79,459	(700,909)
Gross profit	375,199	(35,994)	339,205
Operating expenses	(242,963)	35,994	(206,969)
Operating profit	132,236	-	132,236
Interest costs	(4,503)	-	(4,503)
Interest income	102	-	102
Share of post tax profit of an associate	(61)	-	(61)
Profit before tax	127,774	-	127,774
Tax expense	(21,226)	(8,162)	(29,388)
Profit after taxation	106,548	(8,162)	98,386
Minority interests	-	-	-
Profit after tax and minority interest	106,548	(8,162)	98,386
Net profit for the period	106,548	(8,162)	98,386
Other comprehensive income, net of tax			
Cash flow hedge	(394)	-	(394)
Defined benefit plan actuarial gains	-	-	-
Total other comprehensive income for the period, net of tax	(394)	-	(394)
Total comprehensive income for the period	106,154	(8,162)	97,992

14 Explanation of transition to MFRSs (continued)

Reconciliation of comprehensive income

	6 months ended 30 June 2011		
	FRSs RM'000	Effect of transition to MFRS RM'000	MFRSs RM'000
Revenue - Sales of goods	2,340,565	(227,691)	2,112,874
Cost of sales	(1,559,459)	147,797	(1,411,662)
Gross profit	781,106	(79,894)	701,212
Operating expenses	(453,007)	79,894	(373,113)
Operating profit	328,099	-	328,099
Interest costs	(9,476)	-	(9,476)
Interest income	253	-	253
Share of post tax profit of an associate	5	-	5
Profit before tax	318,881	-	318,881
Tax expense	(59,647)	(13,696)	(73,343)
Profit after taxation	259,234	(13,696)	245,538
Minority interests	-	-	-
Profit after tax and minority interest	259,234	(13,696)	245,538
Net profit for the period	259,234	(13,696)	245,538
Other comprehensive income, net of tax			
Cash flow hedge	2,065	-	2,065
Defined benefit plan actuarial gains	-	-	-
Total other comprehensive income for the period, net of tax	2,065	-	2,065
Total comprehensive income for the period	261,299	(13,696)	247,603

(i) Deferred tax on investment tax incentives

In the previous years, the Group treats investment tax incentives as part of the tax base of an asset and does not recognise the resulting deferred tax asset on initial recognition of the asset and subsequently.

Under MFRS 112, *Income Taxes*, the Group has now recognised the deferred tax asset arising from the unutilised investment tax incentives.

(ii) Presentation of revenue

Certain allowances and discounts, granted to trade chains, distributors, retailers and consumers for services rendered to the Group concerning trade and consumer promotions, selling, distribution, advertising etc. were previously reported as cost of sales and expenses under marketing and administration expenses as well as distribution expenses on grounds that they are incurred to generate sales. These allowances and discounts, as from 1 January 2012, are disclosed as a deduction of sales in conformity with Nestlé S.A. Group policy and with the practice generally applied by consumer goods companies.

ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS

1 Review of performance (Quarter 2, 2012 vs Quarter 2, 2011)

For the second quarter ending 30 June 2012, the Group registered a turnover of RM1.15 billion, 10.5% higher than the same period last year. The commendable performance was largely the result of higher domestic sales. The export sales were flat for the quarter due to the lower demand experienced in some export markets.

The strong domestic sales were driven by the performance of the fast growing categories within the Group's portfolio, in particular Confectionery, Nestlé Liquid Drinks, Chilled Dairy and Ice Cream, which registered a robust double digit growth. The good sales results were due to the continuous investments in consumer communication.

In conjunction with Nestlé Malaysia's 100 years celebration, the quarter also saw higher investment in marketing activities over the previous corresponding period. However, the strong sales in the quarter more than offset the impact of these marketing investments. As a result, the profit before tax reached RM144 million with an improved margin of 20bps. Driven by the timing of some tax expenses, the net profit increased to RM120.5 million, a 100 bps improvement in margin.

2 Review of performance (Year-to-date, 2012 vs Year-to-date, 2011)

The Group registered a turnover of RM 2.3 billion, 9.5% higher than the same period last year. The good sales performance was driven by domestic and export businesses.

The good domestic sales can be attributed to the active marketing and promotional activities in the first half of the year. As Nestlé celebrated its 100th year in Malaysia, there were many promotional and marketing activities including public events, initiated by the Group to create awareness and show appreciation to consumers. The positive consumer sentiment arising from the favourable economic measures by the Government also helped to support the growth.

The export activities further contributed to the Group sales with encouraging growth despite some softness in the economies of the export markets.

From an input cost perspective, the prices of major raw materials consumed by the Group remained high, but somewhat stabilised in the recent months. This has resulted in a fairly flat gross profit margin for the first half.

Compared to the previous year, the Group invested in higher marketing activities in the first half. In addition to the many marketing and promotional events organised for its 100th year activities, the Group was also active in renovating and innovating its range of existing products. The recently launched Nescafé 3 in 1 Brown and Creamy and new MILO Mixes variants such as MILO Less Sweet, MILO Hi-Fibre and MILO Cereal are performing well in the market.

Despite increased marketing investments, the higher revenues and better absorption of fixed cost helped the profit before tax to reach RM 350.8 million and the net profit to RM 278.6 with 10 bps and 40 bps of margin improvement respectively.

3 Variation of results against previous quarter (Quarter 2, 2012 vs. Quarter 1, 2012)

In quarter 2, the Group registered a turnover of RM1.15 billion, marginally lower compared to previous quarter. Despite an improvement in gross margin of 60 bps, net profit dropped for the quarter largely due to the marketing and promotional activities which were typically more concentrated in the second quarter.

4 Current year prospects

We expect the second half of the year to be more challenging as many uncertainties are affecting global economic growth and driving volatility in commodity costs. The Group will continue to capitalise on product innovation and renovation while promoting nutritionally balanced diets and healthy lifestyles in line with the Government's goal of creating a healthy and productive society.

In 2012, the Group will remain focused on growing both top and bottom line while celebrating its 100 years anniversary with many activities and events dedicated to our consumers and stakeholders. The Group continues to pursue its marketing investment in line with Nestlé's objective of being the leader in Nutrition, Health & Wellness, as well as an industry benchmark for its financial performance and being 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 30.06.2012 RM'000	Cumulative year 30.06.2012 RM'000
27,886	74,428
(4,373)	(2,168)
23,513	72,260

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:

	As at 30.06.2012 RM'000
Short term - Unsecured loans	
Revolving credit	99,546
Short term - Secured loans	
Finance lease (payable within a year)	4,103
Total short term loans	103,649
Long term - Unsecured loans	
Intra group loans	204,264
Long term - Secured loans	
Finance lease	11,461
Total long term loans	215,725

All the above debts are in Ringgit Malaysia.

11 Derivatives

Summary of outstanding derivative assets / (liabilities) as at 30.06.2012 :

Type of derivatives	Notional Value RM'000	Fair Value RM'000	Ageing
Foreign exchange contracts	431,995	(4,481)	Less than 1 year
Commodity futures	157,828	3,424	Less than 1 year

12 Material litigation

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

13 Dividend

The Board of Directors has declared an interim dividend of 55.00 sen per share (2011: 55.00 sen per share) in respect of financial year ending 31 December 2012 which will be paid on 4 October 2012 to shareholders whose names appear on the Record of Depositors on 20 September 2012. Under current rules, single-tier dividends are not taxable in the hand of shareholders.

A Depositor shall qualify for entitlement only in respect of:

- shares transferred into the Depositor's Securities Account before 4.00 p.m. on 20 September 2012 in respect of ordinary transfers.
- shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the rules of the Bursa Malaysia Securities Berhad.

14 Profit for the period

	3 months ended 30 June		6 months ended 30 June	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Profit for the period is arrived at after charging:				
Depreciation of property, plant and equipment	25,148	25,268	50,151	50,506
Provision & write off of receivables	303	-	303	-
Provision & write off of inventories	1,385	3,020	640	-
Property, plant and equipment written off	125	337	174	397
Loss on disposal of property, plant and equipment	244	16	-	15
and after crediting:				
Gain on derivatives	341	6,262	3,565	2,716
Gain on disposal of property, plant and equipment	-	-	62	-
Reversal of provision of inventories	-	-	-	847
Net foreign exchange gain	10,940	5,324	9,189	5,773

15 Realised and unrealised profit disclosure

	As at 30.06.2012	As at 31.12.2011
	RM'000	RM'000
Total retained profits of the Group and its subsidiaries:		
Realised	420,228	441,895
Unrealised	(82,460)	(74,384)
Total share of retained profits from an associated company:		
Realised	(258)	210
Unrealised	-	-
Less : Consolidation adjustments	55,599	39,938
Total retained profits as per consolidated accounts	393,109	407,659

16 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 278.6 million (RM 245.5 million in June 2011) and the number of ordinary shares outstanding of 234.5 million (234.5 million in June 2011)

b. Diluted earnings per share

Not applicable for the Group

BY ORDER OF THE BOARD

Mohd. Shah Bin Hashim (LS0006824)

Company Secretary

Date : August 30, 2012