



**Nestlé**

Good Food, Good Life

**INTERIM REPORT**

**NESTLÉ (MALAYSIA) BERHAD**

(110925-W)

(Incorporated in Malaysia)

The Directors are pleased to present the Interim Report for the period ended 31 December 2016 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED 31 DECEMBER 2016**

	3 months ended 31 December		12 months ended 31 December	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Revenue - Sales of goods</b>	1,249,882	1,198,942	5,063,506	4,837,957
Cost of sales	(792,323)	(739,049)	(3,066,051)	(2,972,500)
<b>Gross profit</b>	457,559	459,893	1,997,455	1,865,457
Operating expenses	(367,170)	(331,680)	(1,198,675)	(1,105,280)
<b>Operating profit</b>	90,389	128,213	798,780	760,177
Finance costs	(8,816)	(9,985)	(33,836)	(34,376)
Finance income	299	203	1,140	1,127
Share of post tax (loss)/profit of an associate	(379)	246	410	783
<b>Profit before tax</b>	81,493	118,677	766,494	727,711
Tax expense	(14,551)	(18,888)	(129,367)	(136,978)
<b>Profit after tax</b>	66,942	99,789	637,127	590,733
Minority interests	-	-	-	-
<b>Profit after tax and minority interest</b>	66,942	99,789	637,127	590,733
<b>Profit for the period</b>	66,942	99,789	637,127	590,733
<b>Other comprehensive (expense)/income, net of tax</b>				
<b>Item that is or may be reclassified subsequently to profit or loss</b>				
Cash flow hedge	(719)	(26,682)	(65,080)	76,308
<b>Item that will not be reclassified subsequently to profit or loss</b>				
Remeasurement of defined benefit liability	(272)	(20,357)	(272)	(20,357)
<b>Total other comprehensive (expense)/income for the period, net of tax</b>	(991)	(47,039)	(65,352)	55,951
<b>Total comprehensive income for the period</b>	65,951	52,750	571,775	646,684
<b>Basic earnings per share (sen)</b>	28.55	42.55	271.70	251.91
<b>Proposed/Declared dividend per share - net (sen)</b>	130.00	130.00	270.00	260.00
	<b>AS AT END OF CURRENT QUARTER</b>		<b>AS AT PRECEDING FINANCIAL YEAR END</b>	
<b>Net assets per share attributable to equity holders (RM)</b>	2.76		3.02	

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2015.

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016**

	As at 31.12.2016 RM'000	As at 31.12.2015 RM'000
<b>Assets</b>		
Property, plant and equipment	1,353,050	1,369,874
Intangible assets	62,400	62,814
Investment in an associate	4,224	4,114
Deferred tax assets	20,155	11,068
Trade and other receivables	24,745	25,048
<b>Total non-current assets</b>	<b>1,464,574</b>	<b>1,472,918</b>
Trade and other receivables	544,307	581,918
Inventories	455,337	414,262
Current tax assets	6,396	5,331
Cash and cash equivalents	23,996	13,901
<b>Total current assets</b>	<b>1,030,036</b>	<b>1,015,412</b>
<b>Total assets</b>	<b>2,494,610</b>	<b>2,488,330</b>
<b>Equity</b>		
Share capital	234,500	234,500
Reserves	43,896	108,976
Retained earnings	368,825	365,120
<b>Total equity attributable to owners of the Company</b>	<b>647,221</b>	<b>708,596</b>
<b>Liabilities</b>		
Loans and borrowings	93,146	96,451
Employee benefits	86,140	81,117
Deferred tax liabilities	91,260	77,539
<b>Total non-current liabilities</b>	<b>270,546</b>	<b>255,107</b>
Trade and other payables	1,392,780	1,231,605
Loans and borrowings	183,961	253,034
Current tax liabilities	102	39,988
<b>Total current liabilities</b>	<b>1,576,843</b>	<b>1,524,627</b>
<b>Total liabilities</b>	<b>1,847,389</b>	<b>1,779,734</b>
<b>Total equity and liabilities</b>	<b>2,494,610</b>	<b>2,488,330</b>
<b>Net assets per share attributable to shareholders (RM)</b>	<b>2.76</b>	<b>3.02</b>

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2015.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR PERIOD ENDED 31 DECEMBER 2016**

	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	
<b>At 1 January 2015</b>	267,500	(332)	509,969	777,137
Cash flow hedge	-	76,308	-	76,308
Remeasurement of defined benefit liability	-	-	(20,357)	(20,357)
Profit for the period	-	-	590,733	590,733
<b>Total comprehensive income for the period</b>	-	76,308	570,376	646,684
<b>Dividends paid:</b>				
- 2014 Final	-	-	(410,375)	(410,375)
- 2015 Interim	-	-	(304,850)	(304,850)
<b>At 31 December 2015</b>	267,500	75,976	365,120	708,596
<b>At 1 January 2016</b>	267,500	75,976	365,120	708,596
Cash flow hedge	-	(65,080)	-	(65,080)
Remeasurement of defined benefit liability	-	-	(272)	(272)
Profit for the period	-	-	637,127	637,127
<b>Total comprehensive (expense)/income for the period</b>	-	(65,080)	636,855	571,775
<b>Dividends paid:</b>				
- 2015 Final	-	-	(304,850)	(304,850)
- 2016 Interim	-	-	(328,300)	(328,300)
<b>At 31 December 2016</b>	267,500	10,896	368,825	647,221

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2015.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR PERIOD ENDED  
31 DECEMBER 2016**

	12 months ended 31.12.2016 RM'000	12 months ended 31.12.2015 RM'000
<b>Cash flows from operating activities</b>		
Profit before tax	766,494	727,711
<i>Adjustments for:</i>		
Amortisation, depreciation and impairment	133,193	125,845
Impairment of assets	4,847	-
Net finance costs	32,696	33,249
Decrease in working capital	121,459	6,676
Income tax paid	(145,046)	(141,598)
Others	9,143	(974)
<b>Net cash from operating activities</b>	922,786	750,909
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(123,136)	(191,184)
Acquisition of intangible assets	-	(2,065)
Others	4,134	2,281
<b>Net cash used in investing activities</b>	(119,002)	(190,968)
<b>Cash flows from financing activities</b>		
Finance costs paid	(33,836)	(34,376)
(Repayment of)/Proceed from borrowings	(208,090)	121,111
Dividend payment	(633,150)	(715,225)
<b>Net cash used in financing activities</b>	(875,076)	(628,490)
<b>Net decrease in cash and cash equivalents</b>	(71,292)	(68,549)
<b>Cash and cash equivalents at 1 January</b>	(84,465)	(15,916)
<b>Cash and cash equivalents at 31 December</b>	(155,757)	(84,465)

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2015.

## INTERIM FINANCIAL REPORT

**Notes:**

**1 Basis of preparation**

This interim financial report 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 2015.

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. Property, plant and equipment**

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

	3 months ended 31 December 2016		12 months ended 31 December 2016	
	Assets acquired RM'000	Assets disposed RM'000	Assets acquired RM'000	Assets disposed RM'000
Building (improvements and additions)	10,672	-	18,173	-
Plant and machinery	29,958	1,031	70,913	1,810
Tools and furniture	10,003	71	23,358	182
Motor vehicles	2,450	-	2,901	290
Information systems	5,707	52	7,791	52
	58,790	1,154	123,136	2,334

**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 31.12.2016 (RM'000)	12 months ended 31.12.2016 (RM'000)
Interim dividend for the financial year ended 31 December 2016		
70.00 sen per share (single-tier) 1st interim	-	164,150
70.00 sen per share (single-tier) 2nd interim	164,150	164,150
Final dividend for the financial year ended 31 December 2015		
110.00 sen per share (single-tier)	-	257,950
Special dividend for the financial year ended 31 December 2015		
-	-	46,900
Total	164,150	633,150

## 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 include Nutrition, Nestlé Professional and Nespresso.

12 months ended 31 December 2016		
Food & Beverages RM'000	Others RM'000	Total RM'000
Segment revenue and results		
Revenue	4,039,140	5,063,506
Operating Profit	644,557	798,464

12 months ended 31 December 2015		
Food & Beverages RM'000	Others RM'000	Total RM'000
Segment revenue and results		
Revenue	3,875,100	4,837,957
Operating Profit	627,916	760,789

The comments on page 6 apply to both segments Food & Beverages (80% of total sales) and Others (20% of total sales).

	12 months ended 31.12.2016 RM'000	12 months ended 31.12.2015 RM'000
Reconciliations of reportable segment operating profit:		
Total operating profit for reported segments	798,464	760,789
Other unallocated income/(expenses)	316	(612)
Consolidated operating profit	798,780	760,177

## 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

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

	3 months ended 31.12.2016 RM'000	12 months ended 31.12.2016 RM'000
IT shared service	7,855	37,668
Net finance costs	1,293	5,645
Purchases of goods and services	100,522	506,897
Sales of finished goods	244,911	863,336
Royalties	59,731	248,424

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 (Year-to-date, 2016 vs Year-to-date, 2015)

For the first time, the Group hit the RM5 billion turnover mark. The 2016 turnover of RM 5.1 billion was 4.7% higher than in the year 2015. Domestic sales grew by 3.3% driven by the continuous innovation and renovation initiatives as well as by successful Marketing-and Trade promotions. The Export business demonstrated a good turnaround by showing a 9.6% growth versus a flat performance in 2015.

The Gross Profit rose by 7.1% on basis of the higher turnover, favourable commodity prices as well as efficiency increases in the factories and the overall supply chain. These savings were partially re-invested in stronger Marketing-and Trade promotions which helped to strengthen our Market Share position. This balanced business approach has enabled the Group to increase its Operating Profit by RM 39 million or 5.1% compared to 2015.

Benefitting from that and a lower effective tax rate, the Profit after Tax increased from RM 591 million to RM 637 million, representing an improvement of 7.9%.

### 2 Variation of results against previous quarter (Quarter 4, 2016 vs. Quarter 3, 2016)

In the fourth quarter of 2016, the Group registered a turnover of RM1.2 billion, marginally lower than the previous quarter.

The lower Net Profit compared to the prior quarter was mainly impacted by the phasing of the marketing activities. As in the previous years, the fourth quarter showed an increase of our Marketing spending in preparation for Chinese New Year at the very beginning of 2017.

### 3 Review of performance (Quarter 4, 2016 vs Quarter 4, 2015)

For the fourth quarter ended 31 December 2016, the Group recorded a turnover of RM1.25 billion, an increase of 4.2% (+RM51 million) compared to Q4 2015 turnover of RM1.20 billion. The domestic sales went up by 3.5%. Exports grew by 6.4%, contributing to the overall growth of 4.2%.

The Gross Profit contracted only marginally from RM460 million to RM 458 million: the price increases for some of the commodities as well as the further weakening of the Ringgit were compensated by the higher Turnover as well as internal efficiency increases. Despite of this, the profit was lower because of the planned and exceptionally higher marketing and trade investments in preparation for the early Chinese New Year in 2017.

### 4 Current year prospects

Based on our cautiously optimistic outlook for the Malaysian economy, we will continue with our "Fuel the Growth" strategy: Striving for efficiency increases all over the supply chain and reinvesting the realized improvements into the sustainable growth of the Company by innovating / renovating our portfolio and intensifying our Trade-and Consumer promotions.

### 5 Profit forecast

We do not issue any profit forecast.

### 6 Tax expense

#### Current tax

Malaysian - current year  
- prior year

#### Total current tax expense

#### Deferred tax

Origination and reversal of temporary differences  
Over provision in prior year

#### Total deferred tax expense

#### Total income tax expense

	3 months ended 31.12.2016 RM'000	12 months ended 31.12.2016 RM'000
	17,937	104,393
	(298)	(298)
	17,639	104,095
	12,911	71,817
	(15,999)	(46,545)
	(3,088)	25,272
	14,551	129,367

**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 Loans and borrowings**

Group Borrowings and Debt Securities are:

**Short term - Unsecured loans**

Bank overdraft

**Short term - Secured loans**

Finance lease liabilities ( payable within a year )

**Total short term loans****Long term - Unsecured loans**

Loan from a related company

**Long term - Secured loans**

Finance lease liabilities

**Total long term loans**

All the above debts are in Ringgit Malaysia.

As at 31.12.2016 RM'000
179,753
4,208
183,961
84,264
8,882
93,146

**11 Derivatives**

Summary of outstanding derivative assets / (liabilities) as at 31.12.2016 :

Type of derivatives	Notional Value RM'000	Fair Value RM'000	Difference RM'000	Ageing
Forward exchange contracts	747,299	764,136	16,837	Less than 1 year
Commodity futures	92,090	89,016	(3,074)	Less than 1 year

**12 Material litigation**

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

**13 Dividend**

Subject to shareholders' approval at the upcoming 2017 Annual General Meeting, the Board of Directors has proposed a final dividend of 130.00 sen per share (2015: 110.00 sen per share and a special dividend of 20 sen per share) in respect of financial year ending 31 December 2016 which will be paid on 8 June 2017 to shareholders whose names appear on the Record of Depositors on 18 May 2017. Under current rules, single-tier dividends are not taxable in the hand of shareholders.

A Depositor shall qualify for entitlement only in respect of:

a. shares transferred into the Depositor's Securities Account before 4.00 p.m. on 18 May 2017 in respect of ordinary transfers.

b. 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 31 December		12 months ended 31 December	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<b>Profit for the period is arrived at after charging:</b>				
Amortisation of intangible assets	104	103	414	275
Depreciation of property, plant and equipment	33,794	34,150	132,779	125,570
Impairment of assets	4,847	-	4,847	-
Loss on derivatives	732	-	615	3
Loss on disposal of property, plant and equipment	-	275	-	429
Provision & write off of receivables	3,382	4,067	6,500	4,355
Provision & write off of inventories	-	675	401	2,023
Property, plant and equipment written off	145	541	220	850
<b>and after crediting:</b>				
Gain on derivatives	-	794	-	-
Gain on disposal of property, plant and equipment	491	-	580	-
Reversal of provision of inventories	2,742	-	-	-
Net foreign exchange gain	14,354	18,393	43,510	2,199

## 15 Financial instruments disclosure

### Fair value information

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position:

As at 31.12.2016				
Fair value of financial instruments carried at fair value			Total fair value	Carrying amount
Level 1	Level 2	Level 3		
RM'000	RM'000	RM'000	RM'000	RM'000
<b>Financial assets</b>				
Commodity futures	8,772	-	-	8,772
Forward exchange contracts	-	30,450	-	30,450
<b>Financial liabilities</b>				
Forward exchange contracts	-	(13,613)	-	(13,613)
Commodity futures	(11,846)	-	-	(11,846)

Fair value of financial instruments not carried at fair value				
Level 1	Level 2	Level 3	Total fair value	Carrying amount
RM'000	RM'000	RM'000		
<b>Financial assets</b>				
Loans to employees	-	-	37,744	37,744
<b>Financial liabilities</b>				
Finance lease liabilities	-	-	(12,335)	(13,090)
Loan from a related company	-	-	(84,264)	(84,264)

As at 31.12.2015				
Fair value of financial instruments carried at fair value			Total fair value	Carrying amount
Level 1	Level 2	Level 3		
RM'000	RM'000	RM'000	RM'000	RM'000
<b>Financial assets</b>				
Commodity futures	5,566	-	-	5,566
Forward exchange contracts	-	107,370	-	107,370
<b>Financial liabilities</b>				
Forward exchange contracts	-	(5,576)	-	(5,576)
Commodity futures	(10,194)	-	-	(10,194)

Fair value of financial instruments not carried at fair value				
Level 1	Level 2	Level 3	Total fair value	Carrying amount
RM'000	RM'000	RM'000		
<b>Financial assets</b>				
Loans to employees	-	-	37,846	37,846
<b>Financial liabilities</b>				
Finance lease liabilities	-	-	(15,600)	(16,855)
Loan from a related company	-	-	(84,264)	(84,264)

### Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

### Level 2 fair value

#### Derivatives

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

### Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the period (2015: no transfer in either directions).

### Level 3 fair value

#### Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.



**16 Realised and unrealised profit disclosure**

Total retained profits of the Group and its subsidiaries:

Realised

Unrealised

Total share of retained profits from an associated company:

Realised

Unrealised

Add : Consolidation adjustments

Total retained profits as per consolidated accounts

As at 31.12.2016 RM'000	As at 31.12.2015 RM'000
478,757	501,065
(151,235)	(194,921)
1,224	1,114
-	-
40,079	57,862
368,825	365,120

**17 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 RM637.1 million (RM590.7 million in December 2015) and the number of ordinary shares outstanding of 234.5 million (234.5 million in December 2015).

**b. Diluted earnings per share**

Not applicable for the Group

**BY ORDER OF THE BOARD**Tengku Ida Adura Binti Tengku Ismail, *MCCS (MACS 01686)**Company Secretary***Date : February 28, 2017**