

**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 30 June 2017 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED 30 JUNE 2017**

	3 months ended 30 June		6 months ended 30 June	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Revenue - Sales of goods</b>	1,283,630	1,237,165	2,655,512	2,550,627
Cost of sales	(813,714)	(710,025)	(1,638,406)	(1,501,987)
<b>Gross profit</b>	469,916	527,140	1,017,106	1,048,640
Operating expenses	(249,215)	(296,437)	(497,871)	(533,075)
<b>Operating profit</b>	220,701	230,703	519,235	515,565
Finance costs	(8,833)	(7,524)	(17,211)	(16,953)
Finance income	364	286	668	525
Share of post tax profit of an associate	310	432	590	618
<b>Profit before tax</b>	212,542	223,897	503,282	499,755
Tax expense	(50,472)	(35,100)	(110,781)	(90,281)
<b>Profit after tax</b>	162,070	188,797	392,501	409,474
Minority interests	-	-	-	-
<b>Profit after tax and minority interest</b>	162,070	188,797	392,501	409,474
<b>Profit for the period</b>	162,070	188,797	392,501	409,474
<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	(7,548)	(4,279)	(22,836)	(90,262)
<b>Total other comprehensive (expense)/income for the period, net of tax</b>	(7,548)	(4,279)	(22,836)	(90,262)
<b>Total comprehensive income for the period</b>	154,522	184,518	369,665	319,212
<b>Basic earnings per share (sen)</b>	69.11	80.51	167.38	174.62
<b>Proposed/Declared dividend per share - net (sen)</b>	70.00	70.00	70.00	70.00
	<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>	3.04		2.76	

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2016.

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2017**

	As at 30.06.2017 RM'000	As at 31.12.2016 RM'000
<b>Assets</b>		
Property, plant and equipment	1,319,043	1,353,050
Intangible assets	62,194	62,400
Investment in an associate	4,514	4,224
Deferred tax assets	22,122	20,155
Trade and other receivables	24,471	24,745
<b>Total non-current assets</b>	<b>1,432,344</b>	<b>1,464,574</b>
Trade and other receivables	619,971	544,307
Inventories	489,895	455,337
Current tax assets	4,658	6,396
Cash and cash equivalents	31,178	23,996
<b>Total current assets</b>	<b>1,145,702</b>	<b>1,030,036</b>
<b>Total assets</b>	<b>2,578,046</b>	<b>2,494,610</b>
<b>Equity</b>		
Share capital	267,500	234,500
Reserves	(11,940)	43,896
Retained earnings	456,476	368,825
<b>Total equity attributable to owners of the Company</b>	<b>712,036</b>	<b>647,221</b>
<b>Liabilities</b>		
Loans and borrowings	84,264	93,146
Employee benefits	88,616	86,140
Deferred tax liabilities	113,401	91,260
<b>Total non-current liabilities</b>	<b>286,281</b>	<b>270,546</b>
Trade and other payables	1,216,808	1,392,780
Loans and borrowings	333,011	183,961
Current tax liabilities	29,910	102
<b>Total current liabilities</b>	<b>1,579,729</b>	<b>1,576,843</b>
<b>Total liabilities</b>	<b>1,866,010</b>	<b>1,847,389</b>
<b>Total equity and liabilities</b>	<b>2,578,046</b>	<b>2,494,610</b>
<b>Net assets per share attributable to shareholders (RM)</b>	<b>3.04</b>	<b>2.76</b>

Note: In accordance with Section 618 of Companies Act 2016, any amount standing to the credit of the share premium account has become part of the Company's share capital. The Company has twenty-four months upon the commencement of Companies Act, 2016 on 31 January 2017 to utilise the credit. As at 30 June 2017, share premium amounted to RM33 million has been transferred to share capital and the number of shares remain unchanged at 234,500,000. The key ratios presented in the condensed consolidated statement of profit or loss and other comprehensive income (Page 1) are calculated based on 234,500,000 number of shares issued and fully paid.

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2016.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR PERIOD ENDED 30 JUNE 2017**

	Non Distributable		Distributable	Total Equity RM'000
	Share capital	Hedging reserve	Retained profits	
	RM'000	RM'000	RM'000	
<b>At 1 January 2016</b>	267,500	75,976	365,120	708,596
Cash flow hedge	-	(90,262)	-	(90,262)
Profit for the period	-	-	409,474	409,474
<b>Total comprehensive income for the period</b>	-	(90,262)	409,474	319,212
<b>Dividends paid:</b>				
- 2015 Final	-	-	(304,850)	(304,850)
<b>At 30 June 2016</b>	267,500	(14,286)	469,744	722,958
<b>At 1 January 2017</b>	267,500	10,896	368,825	647,221
Cash flow hedge	-	(22,836)	-	(22,836)
Profit for the period	-	-	392,501	392,501
<b>Total comprehensive (expense)/income for the period</b>	-	(22,836)	392,501	369,665
<b>Dividends paid:</b>				
- 2016 Final	-	-	(304,850)	(304,850)
<b>At 30 June 2017</b>	267,500	(11,940)	456,476	712,036

Note: In accordance with Section 618 of Companies Act 2016, any amount standing to the credit of the share premium account has become part of the Company's share capital. The Company has twenty-four months upon the commencement of Companies Act, 2016 on 31 January 2017 to utilise the credit. As at 30 June 2017, share premium amounted to RM33 million has been transferred to share capital and the number of shares remain unchanged at 234,500,000. The key ratios presented in the condensed consolidated statement of profit or loss and other comprehensive income (Page 1) are calculated based on 234,500,000 number of shares issued and fully paid.

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR PERIOD ENDED  
30 JUNE 2017**

	6 months ended 30.06.2017 RM'000	6 months ended 30.06.2016 RM'000
<b>Cash flows from operating activities</b>		
Profit before tax	503,282	499,755
<i>Adjustments for:</i>		
Amortisation, depreciation and impairment	65,882	65,900
Net finance costs	16,543	16,428
<i>Less:</i>		
Increase in working capital	(214,896)	(101,483)
Income tax paid	(51,847)	(58,523)
Others	13,479	5,043
<b>Net cash from operating activities</b>	<b>332,443</b>	<b>427,120</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(41,161)	(34,631)
Others	1,911	1,010
<b>Net cash used in investing activities</b>	<b>(39,250)</b>	<b>(33,621)</b>
<b>Cash flows from financing activities</b>		
Finance costs paid	(17,211)	(16,953)
Proceed from/(Repayment of) borrowings	174,682	(37,989)
Dividend payment	(304,850)	(304,850)
<b>Net cash used in financing activities</b>	<b>(147,379)</b>	<b>(359,792)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>145,814</b>	<b>33,707</b>
<b>Cash and cash equivalents at 1 January</b>	<b>(155,757)</b>	<b>(84,465)</b>
<b>Cash and cash equivalents at 30 June</b>	<b>(9,943)</b>	<b>(50,758)</b>

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2016.

## 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 2016.

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 30 June 2017		6 months ended 30 June 2017	
	Assets acquired	Assets disposed	Assets acquired	Assets disposed
	RM'000	RM'000	RM'000	RM'000
Building (improvements and additions)	930	182	975	239
Plant and machinery	25,832	305	30,450	991
Tools and furniture	4,521	9	7,674	28
Motor vehicles	-	142	924	243
Information systems	864	44	1,138	44
	32,147	682	41,161	1,545

##### 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 2016

130.00 sen per share (single-tier)

Total

3 months ended 30.06.2017 (RM'000)	6 months ended 30.06.2017 (RM'000)
304,850	304,850
304,850	304,850

## 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.

	6 months ended 30 June 2017		
	Food & Beverages	Others	Total
	RM'000	RM'000	RM'000
<b>Segment revenue and results</b>			
Revenue	2,121,903	533,609	2,655,512
Operating Profit	429,154	90,266	519,420

	6 months ended 30 June 2016		
	Food & Beverages	Others	Total
	RM'000	RM'000	RM'000
<b>Segment revenue and results</b>			
Revenue	2,040,170	510,457	2,550,627
Operating Profit	423,209	93,546	516,755

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

Reconciliations of reportable segment operating profit:	6 months ended	6 months ended
	30.06.2017	30.06.2016
	RM'000	RM'000
Total operating profit for reported segments	519,420	516,755
Other unallocated expenses	(185)	(1,190)
Consolidated operating profit	519,235	515,565

## 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	6 months ended
	30.06.2017	30.06.2017
	RM'000	RM'000
IT shared service	10,966	22,518
Net finance costs	1,406	2,569
Purchases of goods and services	199,020	336,503
Sales of finished goods	224,218	418,275
Royalties	63,253	132,568

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 2, 2017 vs Quarter 2, 2016)

For the second quarter ended 30 June 2017, the Group increased its revenue by 3.8% from RM1.24 billion to RM1.28 billion (+RM46 million) compared to Q2 2016. Effective marketing and trade activities held for Ramadhan and Hari Raya helped to deliver the desired growth for the quarter. Exports also contributed strongly to this good performance.

From a profit perspective the higher raw material prices coupled with a weaker Ringgit had made the input costs more expensive. Compared to the second quarter of last year, the prices of major raw materials such as milk powders, coffee beans and palm oil had increased by some margin. Based on our proactive cost management and a slightly different phasing of the marketing investments compared to 2016, the Group was able to maintain the Operating Profit at a solid level (RM221 million in Q2 2017 vs RM231 million in Q2 2016).

### 2 Review of performance (Year-to-date, 2017 vs Year-to-date, 2016)

For the first half year ended 30 June 2017, the Group registered a turnover of RM 2.7 billion, 4.1% higher than the previous year's corresponding period. The good sales performance was driven by higher domestic sales and as well as increased Export business. The domestic growth was based on effective marketing and trade promotions as well as strong Innovation / Renovation projects. Examples for the successful product launches in H1 2017 are MAGGI Hot Mealz, MILO "KAW", KIT KAT Mini and MAT KOOL Panda Ice Cream.

Despite of external headwinds (increase raw material prices; devaluation of Ringgit), the Group maintained a solid profit-situation. Internal efficiency increases, diligent cost management as well as a slightly different phasing of the marketing expenses contributed to an increase of the Operating Profit by RM4 million to RM519 million. Based on a higher effective tax rate, the profit after tax reduced by RM17 million to RM393 million.

We are confident that our balanced approach of proactive cost management and effective trade and marketing investments will help to improve the Profit after Tax situation for the full year 2017.

### 3 Variation of results against previous quarter (Quarter 2, 2017 vs. Quarter 1, 2017)

In the second quarter, the Group registered a turnover of RM1.3 billion, 6.4% lower than the first quarter of 2017. The lower Profit evolution was mainly due to the increasing trend of the raw material prices.

### 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.

We are confident that our balanced approach of proactive cost management and effective trade and marketing investments will help to improve the Profit after Tax situation for the full year 2017.

### 5 Profit forecast

We do not issue any profit forecast.

### 6 Tax expense

#### Current tax

Malaysian - current year

#### Total current tax expense

#### Deferred tax

Origination and reversal of temporary differences

#### Total deferred tax expense

#### Total income tax expense

	3 months ended 30.06.2017 RM'000	6 months ended 30.06.2017 RM'000
	40,942	83,393
	40,942	83,393
	9,530	27,388
	9,530	27,388
	50,472	110,781

**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**

Loan from a related company

Bank overdraft

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

Loan from a related company

**Total long term loans**

All the above debts are in Ringgit Malaysia.

As at  
30.06.2017  
RM'000

291,890

41,121

333,011

84,264

84,264

**11 Derivatives**

Summary of outstanding derivative assets / (liabilities) as at 30.06.2017 :

Type of derivatives	Notional Value RM'000	Fair Value RM'000	Difference RM'000	Ageing
Forward exchange contracts	1,084,163	1,079,210	(4,953)	Less than 1 year
Commodity futures	87,199	78,841	(8,358)	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 70.00 sen per share (2016: 70.00 sen per share) in respect of financial year ending 31 December 2017 which will be paid on 21 September 2017 to shareholders whose names appear on the Record of Depositors on 8 September 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:

- shares transferred into the Depositor's Securities Account before 4.00 p.m. on 8 September 2017 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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
<b>Profit for the period is arrived at after charging:</b>				
Amortisation of intangible assets	104	103	207	207
Depreciation of property, plant and equipment	32,842	32,986	65,675	65,693
Net loss on derivatives	414	28	-	-
Loss on disposal of property, plant and equipment	-	945	-	187
Provision & write off of inventories	-	2,315	-	-
Property, plant and equipment written off	49	11	69	30
Net foreign exchange loss	3,457	-	-	-
<b>and after crediting:</b>				
Net gain on derivatives	-	-	236	409
Gain on disposal of property, plant and equipment	516	-	1,137	-
Reversal of provision of inventories	2,093	-	4,075	278
Net foreign exchange gain	-	2,885	11,135	37,442

## 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 30.06.2017				
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	482	-	-	482
Forward exchange contracts	-	7,407	-	7,407
<b>Financial liabilities</b>				
Forward exchange contracts	-	(12,359)	-	(12,359)
Commodity futures	(8,841)	-	-	(8,841)

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	-	-	40,239	40,239
<b>Financial liabilities</b>				
Loan from a related company	-	-	(376,154)	(376,154)

As at 30.06.2016				
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	12,453	-	-	12,453
Forward exchange contracts	-	3,449	-	3,449
<b>Financial liabilities</b>				
Forward exchange contracts	-	(39,042)	-	(39,042)
Commodity futures	(1,571)	-	-	(1,571)

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	-	-	26,670	26,670
<b>Financial liabilities</b>				
Finance lease liabilities	-	-	(13,654)	(14,654)
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 (2016: 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

Add : Consolidation adjustments

Total retained profits as per consolidated accounts

As at 30.06.2017 RM'000	As at 31.12.2016 RM'000
541,113	478,757
(145,763)	(151,235)
1,514	1,224
59,612	40,079
456,476	368,825

**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 RM392.5 million (RM409.5 million in June 2016) and the number of ordinary shares outstanding of 234.5 million (234.5 million in June 2016).

**b. Diluted earnings per share**

Not applicable for the Group

**Date : August 21, 2017**

**BY ORDER OF THE BOARD**

**Tengku Ida Adura Binti Tengku Ismail, MCCA (MACS 01686)**

**Company Secretary**