



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 March 2019 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED 31 MARCH 2019**

	3 months ended 31 March			3 months ended 31 March		
	2019 RM'000	2018 RM'000	%	2019 RM'000	2018 RM'000	%
<b>Revenue - Sales of goods *</b>	<b>1,452,713</b>	<b>1,429,670</b>	<b>1.6%</b>	<b>1,452,713</b>	<b>1,429,670</b>	<b>1.6%</b>
Cost of sales	(883,572)	(870,362)		(883,572)	(870,362)	
<b>Gross profit</b>	<b>569,141</b>	<b>559,308</b>	<b>1.8%</b>	<b>569,141</b>	<b>559,308</b>	<b>1.8%</b>
Operating expenses	(247,356)	(255,860)		(247,356)	(255,860)	
<b>Operating profit</b>	<b>321,785</b>	<b>303,448</b>	<b>6.0%</b>	<b>321,785</b>	<b>303,448</b>	<b>6.0%</b>
Finance costs	(10,164)	(9,696)		(10,164)	(9,696)	
Finance income	852	495		852	495	
Share of post tax profit of an associate	323	579		323	579	
<b>Profit before tax</b>	<b>312,796</b>	<b>294,826</b>	<b>6.1%</b>	<b>312,796</b>	<b>294,826</b>	<b>6.1%</b>
Tax expense	(77,580)	(63,610)		(77,580)	(63,610)	
<b>Profit after tax</b>	<b>235,216</b>	<b>231,216</b>	<b>1.7%</b>	<b>235,216</b>	<b>231,216</b>	<b>1.7%</b>
Minority interests	-	-		-	-	
<b>Profit after tax and minority interest</b>	<b>235,216</b>	<b>231,216</b>	<b>1.7%</b>	<b>235,216</b>	<b>231,216</b>	<b>1.7%</b>
<b>Profit for the period</b>	<b>235,216</b>	<b>231,216</b>	<b>1.7%</b>	<b>235,216</b>	<b>231,216</b>	<b>1.7%</b>
<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	(4,714)	5,712		(4,714)	5,712	
<b>Item that will not be reclassified subsequently to profit or loss</b>						
Remeasurement of defined benefit liability	-	-		-	-	
<b>Total other comprehensive (expense)/income for the period, net of tax</b>	<b>(4,714)</b>	<b>5,712</b>		<b>(4,714)</b>	<b>5,712</b>	
<b>Total comprehensive income for the period</b>	<b>230,502</b>	<b>236,928</b>	<b>-2.7%</b>	<b>230,502</b>	<b>236,928</b>	<b>-2.7%</b>
<b>Basic earnings per share (sen)</b>	<b>100.31</b>	<b>98.60</b>		<b>100.31</b>	<b>98.60</b>	
<b>Proposed/Declared dividend per share-net (sen)</b>	<b>-</b>	<b>-</b>		<b>-</b>	<b>-</b>	
	<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>		<b>3.77</b>			<b>2.79</b>	

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2018.

\* 2018 revenue includes the Chilled Dairy business. Factoring in the divestment of the Chilled Dairy business in 1 Jan 2019, this represents a solid 3.2% growth.

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 MARCH 2019**

	<b>As at 31.03.2019 RM'000</b>	<b>As at 31.12.2018 RM'000</b>
<b>Assets</b>		
Property, plant and equipment	1,230,436	1,245,564
Right-of-use assets	252,023	261,567
Intangible assets	66,963	67,546
Investment in an associate	5,407	5,084
Deferred tax assets	27,693	30,572
Trade and other receivables	19,462	21,533
<b>Total non-current assets</b>	<b>1,601,984</b>	<b>1,631,866</b>
Trade and other receivables	620,642	605,414
Inventories	574,411	530,378
Current tax assets	163	163
Assets classified as held for sale	72,450	72,450
Cash and cash equivalents	89,488	7,011
<b>Total current assets</b>	<b>1,357,154</b>	<b>1,215,416</b>
<b>Total assets</b>	<b>2,959,138</b>	<b>2,847,282</b>
<b>Equity</b>		
Share capital	267,500	267,500
Hedging reserve	(2,216)	2,498
Retained earnings	619,551	384,335
<b>Total equity attributable to owners of the Company</b>	<b>884,835</b>	<b>654,333</b>
<b>Liabilities</b>		
Lease liabilities	172,545	180,198
Employee benefits	96,620	95,282
Deferred tax liabilities	135,525	135,390
<b>Total non-current liabilities</b>	<b>404,690</b>	<b>410,870</b>
Trade and other payables	1,459,719	1,527,276
Loans and borrowings	114,282	180,304
Lease liabilities	26,349	26,778
Current tax liabilities	69,263	47,721
<b>Total current liabilities</b>	<b>1,669,613</b>	<b>1,782,079</b>
<b>Total liabilities</b>	<b>2,074,303</b>	<b>2,192,949</b>
<b>Total equity and liabilities</b>	<b>2,959,138</b>	<b>2,847,282</b>
<b>Net assets per share attributable to shareholders (RM)</b>	<b>3.77</b>	<b>2.79</b>

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2018.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR PERIOD ENDED 31 MARCH 2019**

	Non Distributable		Distributable	Total Equity RM'000
	Share capital RM'000	Hedging reserve RM'000	Retained profits RM'000	
<b>At 1 January 2018</b>	267,500	(9,172)	370,611	628,939
Cash flow hedge	-	5,712	-	5,712
Profit for the period	-	-	231,216	231,216
<b>Total comprehensive income for the period</b>	-	5,712	231,216	236,928
<b>At 31 March 2018</b>	267,500	(3,460)	601,827	865,867
<b>At 1 January 2019</b>	267,500	2,498	384,335	654,333
Cash flow hedge	-	(4,714)	-	(4,714)
Profit for the period	-	-	235,216	235,216
<b>Total comprehensive (expense)/income for the period</b>	-	(4,714)	235,216	230,502
<b>At 31 March 2019</b>	267,500	(2,216)	619,551	884,835

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2018.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE PERIOD ENDED 31 MARCH 2019**

	3 months ended 31.03.2019 RM'000	3 months ended 31.03.2018 RM'000
<b>Cash flows from operating activities</b>		
Profit before tax	312,796	294,826
<i>Adjustments for:</i>		
Amortisation and depreciation	44,045	39,481
Net finance costs	9,312	9,201
(Gain)/Loss on disposal of property, plant and equipment	(53)	106
<i>Add/ Less:</i>		
Movement in working capital	(136,508)	(168,007)
Income tax paid	(51,634)	(49,034)
Others	5,120	2,259
<b>Net cash from operating activities</b>	<b>183,078</b>	<b>128,832</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(20,780)	(9,431)
Proceeds from disposal of property, plant and equipment	264	-
Others	852	680
<b>Net cash used in investing activities</b>	<b>(19,664)</b>	<b>(8,751)</b>
<b>Cash flows from financing activities</b>		
Finance costs paid	(10,164)	(9,696)
Payment of lease liabilities	(6,319)	(7,646)
<b>Net cash used in financing activities</b>	<b>(16,483)</b>	<b>(17,342)</b>
<b>Net increase in cash and cash equivalents</b>	<b>146,931</b>	<b>102,739</b>
<b>Cash and cash equivalents at 1 January</b>	<b>(57,443)</b>	<b>(17,310)</b>
<b>Cash and cash equivalents at 31 March</b>	<b>89,488</b>	<b>85,429</b>

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2018.

**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 for the year ended 31 December 2018.

**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:

Building (improvements and additions)  
Plant and machinery (include AUC)  
Tools and furniture  
Information systems

3 months ended 31 Mar 2019	
Assets acquired RM'000	Assets disposed/ write-off RM'000
304	-
19,669	15
208	204
599	8
<b>20,780</b>	<b>227</b>

**b. Right-of-use**

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

Building

3 months ended 31 Mar 2019	
Assets acquired RM'000	Assets disposed/ write-off RM'000
-	(1,763)
-	<b>(1,763)</b>

**c. Asset classified as held for sales**

The divestment of PJ factory, including the manufacturing of chilled dairy products and cold sauces and the packing of milk powder, is expected to take effect on 1 July 2019. As of 31 March 2019, the carrying amount of assets at PJ factory classified as Assets Held for Sale amounting to RM72.5 million (Dec 2018: RM72.5 million).

**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**

There was no dividend payment in this quarter.

**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, Nestlé Health Science and NESPRESSO.

<b>3 months ended 31 Mar 2019</b>			
	<b>Food &amp; Beverages RM'000</b>	<b>Others RM'000</b>	<b>Total RM'000</b>
<b>Segment revenue and results</b>			
Revenue	1,155,694	297,019	1,452,713
Operating Profit	259,547	62,952	322,499

  

<b>3 months ended 31 Mar 2018</b>			
	<b>Food &amp; Beverages RM'000</b>	<b>Others RM'000</b>	<b>Total RM'000</b>
<b>Segment revenue and results</b>			
Revenue	1,144,304	285,366	1,429,670
Operating Profit	248,651	54,527	303,178

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:

	<b>3 months ended 31.03.2019 RM'000</b>	<b>3 months ended 31.03.2018 RM'000</b>
Total operating profit for reported segments	322,499	303,178
Other unallocated (expense)/income	(714)	270
<b>Consolidated operating profit</b>	<b>321,785</b>	<b>303,448</b>

**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 other contingent liabilities to the Group except for material litigation as disclosed in Note 11 on page 7.

**13 Related party transactions**

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

	<b>3 months ended 31.03.2019 RM'000</b>
IT shared service	7,403
Net finance costs	1,119
Purchases of goods and services	223,451
Sales of finished goods	273,816
Royalties	73,273
Management fees	3,930

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 1, 2019 vs Quarter 1, 2018)**

For the first quarter ended 31 March 2019, the Group recorded a 1.6% improvement in turnover to RM1.45 billion. Factoring in the divestment of the Chilled Dairy business on 1 January 2019, this represents a solid 3.2% increase in growth year-on-year. Turnover was driven by robust domestic sales of 4.9% for the quarter, which was fuelled by strong sales momentum during the Chinese New Year festive period.

Operating Profit increased by 6% from RM303 million to RM322 million. The Group recorded lower operating expenses due to phasing of marketing and promotional spends, as well as efficiency increases across the supply chain. As a result, Profit Before Tax grew by 6.1% from RM295 million to RM313 million, reflecting a strong bottom line performance even in comparison to a solid first quarter for 2018.

**2 Variation of results against previous quarter (Quarter 1, 2019 vs. Quarter 4, 2018)**

For the first quarter, the Group registered a turnover of RM1.45 billion, 7.8% higher than the fourth quarter of 2018. This strong growth is driven by our impactful marketing and promotional activities during the festive period. This is also partially explained by the seasonality of our business as the strong sales during the Chinese New Year period contribute to a high Q1 turnover.

The Group increased Operating Profit by RM132 million (+69.4%) to RM 322 million and Profit Before Tax by RM133 million (+73.8%) to RM 313 million. Main reasons for this are the normal phasing of the marketing investments and promotional spends (higher in Q4).

**3 Current year prospects**

We see strong demand for our brands in Malaysia and we have strong plans in place to continue generating sustainable and profitable growth. We acknowledge that there will be some pressures from higher commodity prices and more volatile demand in our main export markets but we remain confident in our ability to deliver another solid year of results in 2019.

**4 Profit forecast**

We do not issue any profit forecast.

**5 Tax expense**

**Current tax**

Malaysian - current period  
- prior year

**Total current tax expense**

**Deferred tax**

Origination and reversal of temporary differences  
Under provision in prior year

**Total deferred tax expense**

**Total income tax expense**

<b>3 months ended 31.03.2019 RM'000</b>
73,543
(367)
<b>73,176</b>
(1,715)
6,119
<b>4,404</b>
<b>77,580</b>

**6 Unquoted investments**

Not applicable in this quarter.

**7 Quoted investments**

Not applicable to the Group.

**8 Status of corporate proposals**

There were no corporate proposals in this quarter.

**9 Loans and borrowings**

Group Borrowings and Debt Securities are:

**Short term - Unsecured loans**

Loan from a related company

**Total short term loans**

As at 31.03.2019 RM'000
114,282
<b>114,282</b>

The Group has a short-term unsecured loan from Nestlé Treasury Centre-Middle East & Africa of USD28 million.

**10 Derivatives**

Summary of outstanding derivative assets / (liabilities) as at 31.03.2019 :

Type of derivatives	Notional Value RM'000	Fair Value RM'000	Difference RM'000	Ageing
Forward exchange contracts	897,931	892,470	(5,461)	Less than 1 year
Commodity futures	6,769	8,213	1,444	Less than 1 year

**11 Material litigation**

Nestlé Products Sdn. Bhd. ("NPSB"), the wholly owned subsidiary of Nestlé (Malaysia) Berhad (110925-W) ("the Company") has been served with a sealed Writ of Summons and Statement of Claim dated 6 March 2019, filed by Mad Labs Sdn. Bhd. ("the Plaintiff") through its solicitors. The claim by the Plaintiff against NPSB is for amongst others, the sum of RM 139,344,262.25. An amended Writ of Summons dated 21 March 2019 was further filed by the Plaintiff and served subsequently on 25 March 2019.

In the Statement of Claim, the Plaintiff is alleging inter alia, the unauthorised and/or unlawful use of the Plaintiff's QR Code, breach of an implied contract between the Plaintiff and NPSB by reason of NPSB's continued use of the QR Code, unjust enrichment of NPSB by the use of the QR Code, compensation for the services which the Plaintiff has rendered to NPSB and NPSB's negligence in using the Plaintiff's QR Code on its products/packaging.

Based on the opinion rendered by solicitors representing NPSB, Messrs. Zaid Ibrahim & Co., NPSB has a strong defence against Plaintiff's claim which is without merit. Accordingly, the Board is of the opinion that no provision needs to be made for this claim.

NPSB, via its solicitors has in accordance with the direction of the High Court, filed and served its Statement of Defence on 22 April 2019 to dispute the claims made by the Plaintiff.

**12 Dividend**

No dividend is proposed in this quarter.

**13 Profit for the period****Profit for the period is arrived at after charging:**

Depreciation of property, plant and equipment  
Amortisation of right-of-use  
Amortisation of intangible assets  
Finance cost of lease liabilities  
Property, plant and equipment written off  
Loss on disposal of property, plant and equipment  
Provision & write off of receivables  
Net foreign exchange loss

**and after crediting:**

Gain on disposal of property, plant and equipment  
Net gain on derivatives  
Reversal of provision of inventories  
Net foreign exchange gain

3 months ended 31 Mar	
2019 RM'000	2018 RM'000
35,681	33,382
7,781	5,996
583	103
2,015	329
16	129
-	106
957	2,000
3,681	-
53	-
-	953
1,363	155
-	7,194

**14 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 31.03.2019					
Fair value of financial instruments carried at fair value					Carrying amount
Level 1	Level 2	Level 3	Total fair value		
RM'000	RM'000	RM'000	RM'000		RM'000
<b>Financial assets</b>					
Commodity futures	1,444	-	-	1,444	1,444
Forward exchange contracts	-	3,045	-	3,045	3,045
<b>Financial liabilities</b>					
Forward exchange contracts	-	(8,506)	-	(8,506)	(8,506)

  

Fair value of financial instruments not carried at fair value					Carrying amount
Level 1	Level 2	Level 3	Total fair value		
RM'000	RM'000	RM'000	RM'000		RM'000
<b>Financial assets</b>					
Loans to employees	-	-	31,033	31,033	31,033
<b>Financial liabilities</b>					
Loan from a related company	-	-	(114,282)	(114,282)	(114,282)

As at 31.12.2018					
Fair value of financial instruments carried at fair value					Carrying amount
Level 1	Level 2	Level 3	Total fair value		
RM'000	RM'000	RM'000	RM'000		RM'000
<b>Financial assets</b>					
Commodity futures	179	-	-	179	179
Forward exchange contracts	-	7,779	-	7,779	7,779
<b>Financial liabilities</b>					
Forward exchange contracts	-	(4,893)	-	(4,893)	(4,893)
Commodity futures	(711)	-	-	(711)	(711)

  

Fair value of financial instruments not carried at fair value					Carrying amount
Level 1	Level 2	Level 3	Total fair value		
RM'000	RM'000	RM'000	RM'000		RM'000
<b>Financial assets</b>					
Loans to employees	-	-	33,557	33,557	33,557
<b>Financial liabilities</b>					
Loan from a related company	-	-	(115,850)	(115,850)	(115,850)

**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 (2018: 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.

**15 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 RM235.2 million (RM231.2 million in March 2018) and the number of ordinary shares outstanding of 234.5 million (234.5 million in March 2018).

**b. Diluted earnings per share**

Not applicable for the Group.

**BY ORDER OF THE BOARD**

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

Company Secretary

**Date : April 23, 2019**