

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 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2019

	3 months ended 30 June			6 months ended 30 June		
	2019 RM'000	2018 RM'000	%	2019 RM'000	2018 RM'000	%
Revenue - Sales of goods *	1,335,706	1,309,059	2.0%	2,788,419	2,738,730	1.8%
Cost of sales	(852,802)	(813,212)		(1,736,374)	(1,683,574)	
Gross profit	482,904	495,847	-2.6%	1,052,045	1,055,156	-0.3%
Other income	19,732	-		19,732	-	
Operating expenses	(295,095)	(272,287)		(542,451)	(528,147)	
Operating profit	207,541	223,560	-7.2%	529,326	527,009	0.4%
Finance costs	(10,006)	(10,426)		(20,170)	(20,122)	
Finance income	1,061	809		1,913	1,304	
Share of post tax profit of an associate	516	465		839	1,043	
Profit before tax	199,112	214,408	-7.1%	511,908	509,234	0.5%
Tax expense	(42,225)	(48,246)		(119,805)	(111,856)	
Profit after tax	156,887	166,162	-5.6%	392,103	397,378	-1.3%
Minority interests	-	-		-	-	
Profit after tax and minority interest	156,887	166,162	-5.6%	392,103	397,378	-1.3%
Profit for the period	156,887	166,162	-5.6%	392,103	397,378	-1.3%
Other comprehensive income/(expense), net of tax						
Item that is or may be reclassified subsequently to profit or loss						
Cash flow hedge	652	20,510		(4,062)	26,222	
Item that will not be reclassified subsequently to profit or loss						
Remeasurement of defined benefit liability	-	-		-	-	
Total other comprehensive income/(expense) for the period, net of tax	652	20,510		(4,062)	26,222	
Total comprehensive income for the period	157,539	186,672	-15.6%	388,041	423,600	-8.4%
Basic earnings per share (sen)	66.90	70.86		167.21	169.46	
Proposed/Declared dividend per share-net (sen)	70.00	70.00		70.00	70.00	
Net assets per share attributable to equity holders (RM)	AS AT END OF CURRENT QUARTER			AS AT PRECEDING FINANCIAL YEAR END		
	3.05			2.79		

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 on 1 Jan 2019, this represents a solid 3.5% growth for first half ended 30 June 2019.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	As at 30.06.2019 RM'000	As at 31.12.2018 RM'000
Assets		
Property, plant and equipment	1,235,799	1,245,564
Right-of-use assets	244,297	261,567
Intangible assets	66,571	67,546
Investment in an associate	5,473	5,084
Deferred tax assets	26,262	30,572
Trade and other receivables	17,728	21,533
Total non-current assets	1,596,130	1,631,866
Trade and other receivables	709,702	605,414
Inventories	549,800	530,378
Current tax assets	4,238	163
Assets classified as held for sale	-	72,450
Cash and cash equivalents	55,985	7,011
Total current assets	1,319,725	1,215,416
Total assets	2,915,855	2,847,282
Equity		
Share capital	267,500	267,500
Hedging reserve	(1,564)	2,498
Retained earnings	448,138	384,335
Total equity attributable to owners of the Company	714,074	654,333
Liabilities		
Lease liabilities	165,971	180,198
Employee benefits	97,959	95,282
Deferred tax liabilities	128,011	135,390
Total non-current liabilities	391,941	410,870
Trade and other payables	1,262,294	1,527,276
Loans and borrowings	437,091	180,304
Lease liabilities	26,560	26,778
Current tax liabilities	83,895	47,721
Total current liabilities	1,809,840	1,782,079
Total liabilities	2,201,781	2,192,949
Total equity and liabilities	2,915,855	2,847,282
Net assets per share attributable to shareholders (RM)	3.05	2.79

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 30 JUNE 2019**

	Non Distributable		Distributable	Total Equity RM'000
	Share capital RM'000	Hedging reserve RM'000	Retained profits RM'000	
At 1 January 2018	267,500	(9,172)	370,607	628,935
Cash flow hedge	-	26,222	-	26,222
Profit for the period	-	-	397,378	397,378
Total comprehensive income for the period	-	26,222	397,378	423,600
<u>Dividends paid:</u>				
- Final dividend for the financial year 2017	-	-	(316,575)	(316,575)
At 30 June 2018	267,500	17,050	451,410	735,960
At 1 January 2019	267,500	2,498	384,335	654,333
Cash flow hedge	-	(4,062)	-	(4,062)
Profit for the period	-	-	392,103	392,103
Total comprehensive (expense)/income for the period	-	(4,062)	392,103	388,041
<u>Dividends paid:</u>				
- Final dividend for the financial year 2018	-	-	(328,300)	(328,300)
At 30 June 2019	267,500	(1,564)	448,138	714,074

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 PRIOD ENDED 30 JUNE 2019**

	6 months ended 30.06.2019 RM'000	6 months ended 30.06.2018 RM'000
Cash flows from operating activities		
Profit before tax	511,908	509,234
<i>Adjustments for:</i>		
Amortisation and depreciation	86,705	80,685
Net finance costs	18,257	18,818
Loss on disposal of property, plant and equipment	76	131
Gain on divestment	(19,732)	-
<i>Add/ Less:</i>		
Movement in working capital	(204,469)	(174,503)
Income tax paid	(89,591)	(68,004)
Others	6,241	2,960
Net cash from operating activities	309,395	369,321
Cash flows from investing activities		
Acquisition of property, plant and equipment	(58,700)	(26,219)
Acquisition of leased assets	-	(1,429)
Proceeds from disposal of property, plant and equipment	268	337
Others	2,363	1,724
Net cash used in investing activities	(56,069)	(25,587)
Cash flows from financing activities		
Finance costs paid	(20,170)	(20,122)
Dividend payment	(328,300)	(316,575)
Payment of lease liabilities	(12,683)	(16,228)
Net cash used in financing activities	(361,153)	(352,925)
Net decrease in cash and cash equivalents	(107,827)	(9,191)
Cash and cash equivalents at 1 January	(57,443)	(17,310)
Cash and cash equivalents at 30 June	(165,270)	(26,501)

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:

	3 months ended 30 Jun 2019		6 months ended 30 Jun 2019	
	Assets acquired RM'000	Assets disposed/ write-off RM'000	Assets acquired RM'000	Assets disposed/ write-off RM'000
Building (improvements and additions)	1,163	-	1,467	-
Plant and machinery (include AUC)	33,598	49	53,267	64
Tools and furniture	2,715	33	2,923	237
Motor vehicles	-	90	-	90
Information systems	444	-	1,043	1
	37,920	172	58,700	392

b. Right-of-use

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

	3 months ended 30 Jun 2019		6 months ended 30 Jun 2019	
	Assets acquired RM'000	Assets disposed/ write-off RM'000	Assets acquired RM'000	Assets disposed/ write-off RM'000
Land	-	20,070	-	20,070
Building	-	-	-	1,763
	-	20,070	-	21,833

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 30.06.2019 (RM'000)	6 months ended 30.06.2019 (RM'000)
Final dividend for the financial year ended 31 December 2018 140.00 sen per share (single-tier)	328,300	328,300
Total	328,300	328,300

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.

Segment revenue and results

Revenue

Operating Profit

6 months ended 30 Jun 2019		
Food & Beverages RM'000	Others RM'000	Total RM'000
2,226,079	562,340	2,788,419
432,713	97,257	529,970

Segment revenue and results

Revenue

Operating Profit

6 months ended 30 Jun 2018		
Food & Beverages RM'000	Others RM'000	Total RM'000
2,195,679	543,051	2,738,730
431,843	95,930	527,773

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:

Total operating profit for reported segments

Other unallocated expense

Consolidated operating profit

6 months ended 30.06.2019 RM'000	6 months ended 30.06.2018 RM'000
529,970	527,773
(644)	(764)
529,326	527,009

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 12 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:

IT shared service

Net finance costs

Purchases of goods and services

Sales of finished goods

Royalties

Management fees

3 months ended 30.06.2019 RM'000	6 months ended 30.06.2019 RM'000
8,135	15,538
1,167	2,286
267,583	491,034
186,041	459,857
65,470	138,743
2,593	6,523

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, 2019 vs Quarter 2, 2018)

For the second quarter ended 30 June 2019, the Group recorded a 2.0% increase in Turnover to RM1.34 billion. Factoring in the divestment of the Chilled Dairy business on 1 January 2019, this represents a robust 3.4% increase in growth year-on-year. When excluding the Chilled Dairy Business, domestic sales recorded a strong 6.8% growth over same period last year.

The strong domestic sales were achieved through focused sales execution, adequate marketing support and our efforts to capture the opportunities offered by the festive season. We have also maintained our innovation focus and the new products launched in Q2, such as NESCAFE Gold Jar relaunch, MAGGI Pedas Giler 2X Ayam Bakar, MAGGI Pedas Giler Seafood, LA CREMERIA Summer Berries Yogurt Ice Cream and KIT KAT Popcorn flavour, provide further platforms and confidence in our ability to generate sustainable growth.

The Group recorded another period of good margins with Profit Before Tax of RM199 million and Profit After Tax of RM157 million for its second quarter. The Group also recognized a one-off gain of RM19.7 million from the divestment of the Petaling Jaya factory and the manufacturing business in relation to chilled dairy products, cold sauces and packing of milk powders.

2 Review of performance (Year-to-date, 2019 vs Year-to-date, 2018)

For the first half ended 30 June 2019, the Group registered a turnover of RM2.79 billion, 1.8% increase from the same period in 2018 (3.5% adjusting for the divestment of the Chilled Dairy business) on the back of stronger domestic sales growing at 4.1% (6.1% net of Chilled Dairy divestment). This was mainly driven by positive offtake for our brands on the back of robust demand and successful Chinese New Year and Hari Raya festive sales.

Successful product innovations and portfolio renovation have continued to drive domestic growth momentum in H1 2019. These include, in addition to the above mentioned launches in Q2, those introduced in Q1, such as MILO Whole Grains Cereal, NESCAFÉ Blend & Brew White Coffee, NESTUM Brown Rice and NESCAFE Tarik Kurang Manis.

Profit Before Tax increased slightly from RM509 million to RM512 million, against a backdrop of challenging external conditions, including exchange rates volatility, higher commodity prices and volatile international conditions. Profit After Tax reduced slightly to RM392 million due to higher income tax arising from the expiration of investment incentive.

3 Variation of results against previous quarter (Quarter 2, 2019 vs. Quarter 1, 2019)

For the second quarter, the Group registered a turnover of RM1.34 billion, 8.1% lower than the first quarter of 2019. This is due to the seasonality of our business as the strong sales during the Chinese New Year period contributed to a high Q1 turnover. Our growth momentum in Q2 demonstrates the strength of our domestic business and reflects our effort to drive sustainable demand for our brands.

The quarterly profitability, while remaining strong, has been impacted by the phasing of our commercial spending as well as some one-off warehousing expenses in preparation for the factory expansion in Chembong, as well as the slightly higher cost of commodities, which were mitigated by the hedging measures in place.

4 Current year prospects

We remain confident in our full year performance against a backdrop of global uncertainties and volatility. Our fundamentals remain strong and we continue to focus on consumer driven commercial activities to maintain our growth momentum. We have an exciting stream of new launches planned for the second half of 2019 and our teams are committed to capture all the opportunities available to grow the business. The recent introduction of the “Starbucks At Home” range in Malaysia building on Nestle’s Global Coffee Alliance with Starbucks is just the most recent example of our commitment to bring to Malaysian consumers exciting experiences and to capture all opportunities for growth.

We will continue driving efficiencies and savings to invest behind our brands and protect our margins to counter rising commodity prices and to manage input costs.

5 Profit forecast

We do not issue any profit forecast.

6 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

3 months ended 30.06.2019 RM'000	6 months ended 30.06.2019 RM'000
48,900	122,443
(386)	(753)
48,514	121,690
(6,320)	(8,035)
31	6,150
(6,289)	(1,885)
42,225	119,805

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

Short term loan

Bank overdraft

Total short term loans

As at 30.06.2019 RM'000
115,836
100,000
221,255
437,091

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

11 Derivatives

Summary of outstanding derivative assets / (liabilities) as at 30.06.2019 :

Type of derivatives	Notional Value RM'000	Fair Value RM'000	Difference RM'000	Ageing
Forward exchange contracts	1,223,478	1,220,771	(2,707)	Less than 1 year
Commodity futures	4,268	4,879	611	Less than 1 year

12 Material litigation

Nestlé Products Sdn. Bhd. ("NPSB"), the wholly owned subsidiary of Nestlé (Malaysia) Berhad (110925-W) ("the Company") was served with a sealed Writ of Summons and Statement of Claim dated 6 March 2019, filed by Mad Labs Sdn. Bhd. ("Mad Labs"). The claim by Mad Labs 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 Mad Labs and served subsequently on 25 March 2019.

In the Statement of Claim, Mad Labs is alleging inter alia, the unauthorised and/or unlawful use of Mad Lab's QR Code, breach of an implied contract between Mad Labs 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 Mad Labs has rendered to NPSB and NPSB's negligence in using Mad Labs's QR Code on its products/packaging.

NPSB has filed and served its Statement of Defence dated 22 April 2019 to dispute the claims made by Mad Labs. In addition to filing the Statement of Defence, NPSB has separately filed an action at the Intellectual Property Court against Mad Labs and its sole director and shareholder, Chow Kien Loon ("CKL") for amongst others, to challenge the ownership of Mad Labs in the QR Code, negligence, unlawful interference with trade as well as defamation and trade libel. Mad Labs and CKL have been served the sealed Writ of Summons and Statement of Claim dated 23 April 2019 filed by NPSB through its solicitors.

Both NPSB and Mad Labs are in the midst of complying with pre-trial directions by the Courts.

Based on the opinion rendered by solicitors representing NPSB, Messrs. Zaid Ibrahim & Co., NPSB has a reasonably strong case against Mad Labs and CKL. Accordingly, the Board is of the opinion that no provision needs to be made for this claim.

13 Dividend

The Board of Directors has declared an interim dividend of 70.00 sen per share (2018: 70.00 sen per share) in respect of financial year ending 31 December 2019 which will be paid on 10 October 2019 to shareholders whose names appear on the Record of Depositors on 17 September 2019. 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 5.00 p.m. on 17 September 2019 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**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
Provision & write off of inventories
Net foreign exchange loss

and after crediting:

Net gain on derivatives
Gain on divestment
Reversal of provision of receivables
Reversal of provision of inventories
Net foreign exchange gain

3 months ended 30 Jun		6 months ended 30 Jun	
2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
34,357	32,961	70,038	66,343
7,911	8,142	15,692	14,138
392	204	975	204
2,004	865	4,019	1,194
32	92	48	92
129	52	76	131
-	7,709	-	9,709
-	1,447	-	814
5,136	1,257	8,817	-
-	4,355	-	5,308
19,732	-	19,732	-
3,603	-	2,646	-
838	-	2,201	-
-	-	-	5,937

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:

Financial assets

Commodity futures

Forward exchange contracts

Financial liabilities

Forward exchange contracts

Commodity futures

As at 30.06.2019				
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
673	-	-	673	673
-	2,938	-	2,938	2,938
-	(5,645)	-	(5,645)	(5,645)
(62)	-	-	(62)	(62)

Financial assets

Loans to employees

Financial liabilities

Loan from a related company

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	RM'000	
-	-	31,194	31,194	31,194
-	-	(115,836)	(115,836)	(115,836)

Financial assets

Commodity futures

Forward exchange contracts

Financial liabilities

Forward exchange contracts

Commodity futures

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
179	-	-	179	179
-	7,779	-	7,779	7,779
-	(4,893)	-	(4,893)	(4,893)
(711)	-	-	(711)	(711)

Financial assets

Loans to employees

Financial liabilities

Loan from a related company

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	RM'000	
-	-	33,557	33,557	33,557
-	-	(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.

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 RM392.1 million (RM397.4 million in June 2018) and the number of ordinary shares outstanding of 234.5 million (234.5 million in June 2018).

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 : August 27 , 2019