

INTERIM REPORT
NESTLÉ (MALAYSIA) BERHAD
 (198301015532 (110925-W))
 (Incorporated in Malaysia)

The Directors are pleased to present the Interim Report for the period ended 31 December 2019 as follows:

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

	3 months ended 31 December			12 months ended 31 December		
	2019 RM'000	2018 RM'000	%	2019 RM'000	2018 RM'000	%
Revenue - Sales of goods *	1,328,892	1,347,864	-1.4%	5,518,076	5,519,045	0.0%
Cost of sales	(822,265)	(820,585)		(3,444,561)	(3,381,380)	
Gross profit	506,627	527,279	-3.9%	2,073,515	2,137,665	-3.0%
Other income	1,173	16,819		20,960	16,819	
Operating expenses	(325,990)	(354,191)		(1,182,482)	(1,239,888)	
Operating profit	181,810	189,907	-4.3%	911,993	914,596	-0.3%
Finance costs	(10,197)	(11,100)		(40,663)	(43,123)	
Finance income	852	1,539		3,662	3,622	
Share of post tax profit of an associate	(292)	(408)		733	795	
Profit before tax	172,173	179,938	-4.3%	875,725	875,890	0.0%
Tax expense	(40,354)	(56,114)		(202,812)	(217,008)	
Profit after tax	131,819	123,824	6.5%	672,913	658,882	2.1%
Minority interests	-	-		-	-	
Profit after tax and minority interest	131,819	123,824	6.5%	672,913	658,882	2.1%
Profit for the period/year	131,819	123,824	6.5%	672,913	658,882	2.1%
Other comprehensive (expense)/income, net of tax Item that is or may be reclassified subsequently to profit or loss						
Cash flow hedge	(816)	(13,832)		(3,429)	11,670	
Item that will not be reclassified subsequently to profit or loss						
Remeasurement of defined benefit liability	(2,293)	(283)		(2,293)	(283)	
Total other comprehensive (expense)/income for the period/year, net of tax	(3,109)	(14,115)		(5,722)	11,387	
Total comprehensive income for the period/year	128,710	109,709	17.3%	667,191	670,269	-0.5%
Basic earnings per share (sen)	56.21	52.80		286.96	280.97	
Proposed/Declared dividend per share-net (sen)	140.00	140.00		280.00	280.00	
	AS AT END OF CURRENT QUARTER			AS AT PRECEDING FINANCIAL YEAR END		
Net assets per share attributable to equity holders (RM)	2.84			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 1.6% growth for the twelve months ended 31 December 2019.

CONDENSED AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	As at 31.12.2019 RM'000	As at 31.12.2018 RM'000
Assets		
Property, plant and equipment	1,277,861	1,245,564
Right-of-use assets	254,184	261,567
Intangible assets	65,795	67,546
Investment in an associate	5,367	5,084
Deferred tax assets	34,511	30,572
Trade and other receivables	15,807	21,533
Total non-current assets	1,653,525	1,631,866
Trade and other receivables	508,097	605,414
Inventories	551,827	530,378
Current tax assets	2,690	163
Assets classified as held for sale	-	72,450
Cash and cash equivalents	10,399	7,011
Total current assets	1,073,013	1,215,416
Total assets	2,726,538	2,847,282
Equity		
Share capital	267,500	267,500
Hedging reserve	(931)	2,498
Retained earnings	398,355	384,335
Total equity attributable to owners of the Company	664,924	654,333
Liabilities		
Lease liabilities	176,823	180,198
Employee benefits	91,444	95,282
Deferred tax liabilities	138,597	135,390
Total non-current liabilities	406,864	410,870
Trade and other payables	1,321,407	1,527,276
Loans and borrowings	257,431	180,304
Lease liabilities	28,753	26,778
Current tax liabilities	47,159	47,721
Total current liabilities	1,654,750	1,782,079
Total liabilities	2,061,614	2,192,949
Total equity and liabilities	2,726,538	2,847,282
Net assets per share attributable to shareholders (RM)	2.84	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 AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR PERIOD ENDED 31 DECEMBER 2019**

	Non Distributable		Distributable	Total Equity RM'000
	Share capital	Hedging reserve	Retained profits	
	RM'000	RM'000	RM'000	
At 1 January 2018	267,500	(9,172)	370,611	628,939
Cash flow hedge	-	11,670	-	11,670
Remeasurement of defined benefit liability	-	-	(283)	(283)
Profit for the period	-	-	658,882	658,882
Total comprehensive income for the year	-	11,670	658,599	670,269
<u>Dividends to owners of the company</u>				
- Final dividend for the financial year 2017	-	-	(316,575)	(316,575)
- Interim dividend for the financial year 2018	-	-	(328,300)	(328,300)
At 31 December 2018	267,500	2,498	384,335	654,333
At 1 January 2019	267,500	2,498	384,335	654,333
Cash flow hedge	-	(3,429)	-	(3,429)
Remeasurement of defined benefit liability	-	-	(2,293)	(2,293)
Profit for the period	-	-	672,913	672,913
Total comprehensive (expense)/income for the year	-	(3,429)	670,620	667,191
<u>Dividends to owners of the company</u>				
- Final dividend for the financial year 2018	-	-	(328,300)	(328,300)
- Interim dividend for the financial year 2019	-	-	(328,300)	(328,300)
At 31 December 2019	267,500	(931)	398,355	664,924

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 AUDITED CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 31 DECEMBER 2019**

	12 months ended 31.12.2019 RM'000	12 months ended 31.12.2018 RM'000
Cash flows from operating activities		
Profit before tax	875,725	875,890
<i>Adjustments for:</i>		
Amortisation and depreciation	167,488	165,354
Impairment of property, plant and equipment	9,812	-
Net finance costs	37,001	39,501
(Gain)/Loss on disposal of property, plant and equipment	(852)	195
Gain on disposal of leasehold land	-	(7,410)
Net gain on divestment	(20,960)	(9,417)
<i>Add/ Less:</i>		
Movement in working capital	(149,534)	151,275
Income tax paid	(204,926)	(173,872)
Others	12,544	5,378
Net cash from operating activities	726,298	1,046,894
Cash flows from investing activities		
Acquisition of property, plant and equipment	(183,253)	(145,671)
Acquisition of intangible assets	-	(5,974)
Proceeds from sale of leasehold land	-	12,827
Proceeds from disposal of property, plant and equipment	2,359	549
Net proceeds from divestment	99,005	10,480
Others	4,112	4,042
Net cash used in investing activities	(77,777)	(123,747)
Cash flows from financing activities		
Finance costs paid	(40,663)	(43,123)
Proceed/(Repayment) from borrowings	100,000	(243,922)
Dividend payment	(656,600)	(644,875)
Payment of lease liabilities	(26,243)	(31,360)
Net cash used in financing activities	(623,506)	(963,280)
Net increase/(decrease) in cash and cash equivalents	25,015	(40,133)
Cash and cash equivalents at 1 January	(57,443)	(17,310)
Cash and cash equivalents at 31 December	(32,428)	(57,443)

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 is based on the audited financial statements for the year ended 31 December 2019 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 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 31 Dec 2019		12 months ended 31 Dec 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)	12,388	1,275	14,003	1,935
Plant and machinery, tools, furniture and equipment (include Asset Under Construction)	67,086	3,616	151,526	4,022
Motor vehicles	839	366	3,630	687
Information systems	12,613	551	14,094	567
	92,926	5,808	183,253	7,211

b. Right-of-use

As at the end of this quarter, the movement in the right-of-use assets are as follow:

	3 months ended 31 Dec 2019		12 months ended 31 Dec 2019	
	Addition & modification RM'000	Derecognition RM'000	Addition & modification RM'000	Derecognition RM'000
Building	17,294	38	15,531	38
Tools and equipment	9,312	-	9,312	-
	26,606	38	24,843	38

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 31.12.2019 RM'000	12 months ended 31.12.2019 RM'000
Interim dividend for the financial year ending 31 December 2019		
1st interim: 70.00 sen per share (single-tier)	-	164,150
2nd interim: 70.00 sen per share (single-tier)	164,150	164,150
Final dividend for the financial year ended 31 December 2018		
140.00 sen per share (single-tier)	-	328,300
Total	164,150	656,600

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

12 months ended 31 Dec 2019		
Food & Beverages RM'000	Others RM'000	Total RM'000
4,679,996	838,080	5,518,076
751,800	162,135	913,935

Segment revenue and results

Revenue
Operating Profit

12 months ended 31 Dec 2018		
Food & Beverages RM'000	Others RM'000	Total RM'000
4,427,010	1,092,035	5,519,045
744,937	169,884	914,821

The comments on page 6 apply to both segments Food & Beverages (85% of total sales) and Others (15% of total sales).

Reconciliations of reportable segment operating profit:

Total operating profit for reported segments
Other unallocated (expense)/income
Consolidated operating profit

12 months ended 31.12.2019 RM'000	12 months ended 31.12.2018 RM'000
913,935	914,821
(1,942)	(225)
911,993	914,596

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 31.12.2019 RM'000	12 months ended 31.12.2019 RM'000
7,739	31,208
207	1,792
234,532	984,674
261,718	975,074
64,033	270,797
3,458	13,200

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 4, 2019 vs Quarter 4, 2018)

For the fourth quarter ended 31 December 2019, the Group recorded good domestic sales growth of 2.8% (4.7% after adjustment for divestment of the Chilled Dairy business) on top of strong results in Q4 2018. Total turnover growth for the quarter (-1.4% reported, 0.1% net of the Chilled Dairy divestment) was still impacted by subdued export demand against the backdrop of regional and global uncertainties.

The strong growth in the domestic business was supported by strong sales execution, successful product innovations and effective marketing activities. We introduced new products that have resonated well with consumers such as MILO Nutri Pluz, MAGGI Pazzta, KIT KAT Mandarin Orange and KIT KAT Stick Ice Cream, to name a few.

The Group achieved Profit After Tax of RM132 Mio (+6.5% vs the same period in 2018). These positive results were achieved on the back of the robust domestic sales and continued focus on demand generation funded by efficiencies and savings.

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

Consumer demand for 2019 vs 2018 has been challenging. Against this backdrop, the Group recorded a turnover of RM5.5 billion, on par with the previous year. Adjusted for the Chilled Dairy business divestment, the turnover growth is equivalent to 1.6%, which is driven by growth in domestic sales at 4.7%.

The Group delivered a higher Profit After Tax of RM673 million, up by 2.1%, while Profit Before Tax held firm at RM 876 million, in spite of higher commodity prices and unfavourable exchange rates, mitigated through our continued focus on driving efficiencies and savings to protect the financial performance.

The good performance in 2019 was supported by strong operational sales execution, anticipation of market trends and a sustained stream of innovations throughout the year. Successful launches in 2019 included the extension of the MAGGI Pedas Giler range, new Ready-to-Drink variants including NESCAFÉ Tarik Kurang Manis and MILO Protein Up, the launch of STARBUCKS AT HOME range, NESTUM Brown Rice, as well as the renovation of our Ice Cream LA CREMERIA range, to mention a few.

3 Variation of results against previous quarter (Quarter 4, 2019 vs. Quarter 3, 2019)

For the fourth quarter ended 31 December 2019, the Group registered a turnover of RM1.33 billion, 5.1% lower than the third quarter of 2019, mainly due to phasing of our marketing activities.

While Profit Before Tax was slightly lower at RM172 million, this was mainly due to higher commercial spending and operational expenses in the fourth quarter in preparation for an early Chinese New Year in 2020.

4 Current year prospects

We are encouraged by our performance in 2019, particularly in the context of the volatile trading environment. Building on this in 2020, we will continue to focus on driving strong growth momentum, nurturing our brands and building capabilities to continue delivering sustainable and profitable growth.

We foresee the soft consumer demand will continue to prevail as well as pressure from external factors, including commodity prices or any of the several crisis that the world is confronting in this early part of the year. However we remain optimistic that with our strong fundamentals and our focus on consumer-driven commercial activities, we are well-positioned to achieve continued growth in 2020.

5 Profit forecast

We do not issue any profit forecast.

6 Tax expense

Current tax

Malaysian - current period/year
- 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 31.12.2019 RM'000	12 months ended 31.12.2019 RM'000
	37,243	207,950
	510	(6,113)
	37,753	201,837
	2,579	(5,018)
	22	5,993
	2,601	975
	40,354	202,812

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
Revolving credit
Bank overdraft

Total short term loans

As at 31.12.2019 RM'000
114,604
100,000
42,827
257,431

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 31.12.2019 :

Type of derivatives	Notional Value RM'000	Fair Value RM'000	Difference RM'000	Ageing
Forward exchange contracts	1,143,198	1,140,568	(2,630)	Less than 1 year
Commodity futures	6,788	7,267	479	Less than 1 year

12 Material litigation

Nestlé Products Sdn. Bhd. ("NPSB"), the wholly owned subsidiary of Nestlé (Malaysia) Berhad ("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 RM139,344,262.25. 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.

On 9 December 2019, the Court has allowed the consolidation and transfer of Mad Labs' claim to the Intellectual Property Court to be heard together with NPSB's claim. Both NPSB and Mad Labs are presently complying with pre-trial directions and dealing with interlocutory application.

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

Subject to shareholders' approval at the upcoming 2020 Annual General Meeting, the Board of Directors has proposed a final dividend of 140.00 sen per share (2018: 140.00 sen per share) in respect of financial year ending 31 December 2019 which will be paid on 21 May 2020 to shareholders whose names appear on the Record of Depositors on 15 April 2020. 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 15 April 2020 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/year

	3 months ended 31 Dec		12 months ended 31 Dec	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit for the period/year is arrived at after charging:				
Depreciation of property, plant and equipment	32,694	34,545	133,506	135,328
Depreciation of right-of-use assets	8,992	7,501	32,411	29,612
Amortisation of intangible assets	203	104	1,571	414
Finance cost of lease liabilities	1,989	2,041	7,949	5,185
Impairment loss on property, plant and equipment	9,812	-	9,812	-
Property, plant and equipment written off	4,979	1,227	5,704	1,534
Loss on disposal of property, plant and equipment	-	61	-	195
Net loss on derivatives	2	-	-	-
Impairment loss on trade receivables	-	4,420	-	14,253
Provision & write off of inventories	5,602	4,259	3,670	5,462
Net foreign exchange loss	1,530	13,181	12,087	6,388
and after crediting:				
Gain on disposal of property, plant and equipment	1,077	-	852	-
Gain on disposal of leasehold land	-	7,410	-	7,410
Net gain on derivatives	-	-	-	309
Net gain on divestment	1,173	9,417	20,960	9,417
Reversal of impairment loss on trade receivables	1,817	-	3,384	-

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 31.12.2019				
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
Financial assets				
Commodity futures	551	-	-	551
Forward exchange contracts	-	5,970	-	5,970
Financial liabilities				
Forward exchange contracts	-	(8,600)	-	(8,600)
Commodity futures	(72)	-	-	(72)

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
Financial assets				
Loans to employees	-	-	26,025	26,025

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
Financial assets				
Commodity futures	179	-	-	179
Forward exchange contracts	-	7,779	-	7,779
Financial liabilities				
Forward exchange contracts	-	(4,893)	-	(4,893)
Commodity futures	(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
Financial assets				
Loans to employees	-	-	33,557	33,557

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 RM672.9 million (RM658.8 million in December 2018) and the number of ordinary shares outstanding of 234.5 million (234.5 million in December 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 : February 25 , 2020