

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 March 2020 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
 FOR THE PERIOD ENDED 31 MARCH 2020**

	3 months ended 31 March			3 months ended 31 March		
	2020 RM'000	2019 RM'000	%	2020 RM'000	2019 RM'000	%
Revenue - Sales of goods	1,434,514	1,452,713	-1.3%	1,434,514	1,452,713	-1.3%
Cost of sales	(907,314)	(883,572)		(907,314)	(883,572)	
Gross profit	527,200	569,141	-7.4%	527,200	569,141	-7.4%
Operating expenses	(273,159)	(247,356)		(273,159)	(247,356)	
Operating profit	254,041	321,785	-21.1%	254,041	321,785	-21.1%
Finance costs	(8,920)	(10,164)		(8,920)	(10,164)	
Finance income	742	852		742	852	
Share of post tax profit of an associate	396	323		396	323	
Profit before tax	246,259	312,796	-21.3%	246,259	312,796	-21.3%
Tax expense	(59,952)	(77,580)		(59,952)	(77,580)	
Profit after tax	186,307	235,216	-20.8%	186,307	235,216	-20.8%
Minority interests	-	-		-	-	
Profit after tax and minority interest	186,307	235,216	-20.8%	186,307	235,216	-20.8%
Profit for the period	186,307	235,216	-20.8%	186,307	235,216	-20.8%
Other comprehensive income/(expense), net of tax						
Item that is or may be reclassified subsequently to profit or loss						
Cash flow hedge	6,222	(4,714)		6,222	(4,714)	
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	6,222	(4,714)		6,222	(4,714)	
Total comprehensive income for the period	192,529	230,502	-16.5%	192,529	230,502	-16.5%
Basic earnings per share (sen)	79.45	100.31		79.45	100.31	
Proposed/Declared dividend per share-net (sen)	-	-		-	-	
	AS AT END OF CURRENT QUARTER			AS AT PRECEDING FINANCIAL YEAR END		
Net assets per share attributable to equity holders (RM)		3.66			2.84	

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2019.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020

	As at 31.03.2020 RM'000	As at 31.12.2019 RM'000
Assets		
Property, plant and equipment	1,251,610	1,277,861
Right-of-use assets	245,911	254,184
Intangible assets	65,403	65,795
Investment in an associate	5,763	5,367
Deferred tax assets	28,930	34,511
Trade and other receivables	15,286	15,807
Total non-current assets	1,612,903	1,653,525
Trade and other receivables	519,859	508,097
Inventories	471,036	551,827
Current tax assets	2,738	2,690
Cash and cash equivalents	80,887	10,399
Total current assets	1,074,520	1,073,013
Total assets	2,687,423	2,726,538
Equity		
Share capital	267,500	267,500
Hedging reserve	5,291	(931)
Retained earnings	584,662	398,355
Total equity attributable to owners of the Company	857,453	664,924
Liabilities		
Lease liabilities	169,500	176,823
Employee benefits	92,668	91,444
Deferred tax liabilities	136,526	138,597
Total non-current liabilities	398,694	406,864
Trade and other payables	1,219,176	1,321,407
Loans and borrowings	120,610	257,431
Lease liabilities	29,165	28,753
Current tax liabilities	62,325	47,159
Total current liabilities	1,431,276	1,654,750
Total liabilities	1,829,970	2,061,614
Total equity and liabilities	2,687,423	2,726,538
Net assets per share attributable to shareholders (RM)	3.66	2.84

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2019.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR PERIOD ENDED 31 MARCH 2020**

	Non Distributable		Distributable	Total Equity RM'000
	<i>Share capital</i>	<i>Hedging reserve</i>	<i>Retained profits</i>	
	RM'000	RM'000	RM'000	
At 1 January 2019	267,500	2,498	384,335	654,333
Cash flow hedge	-	(4,714)	-	(4,714)
Profit for the period	-	-	235,216	235,216
Total comprehensive (expense)/income for the period	-	(4,714)	235,216	230,502
At 31 March 2019	267,500	(2,216)	619,551	884,835
At 1 January 2020	267,500	(931)	398,355	664,924
Cash flow hedge	-	6,222	-	6,222
Profit for the period	-	-	186,307	186,307
Total comprehensive income for the period	-	6,222	186,307	192,529
At 31 March 2020	267,500	5,291	584,662	857,453

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2019.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 31 MARCH 2020**

	3 months ended 31.03.2020 RM'000	3 months ended 31.03.2019 RM'000
Cash flows from operating activities		
Profit before tax	246,259	312,796
<i>Adjustments for:</i>		
Amortisation and depreciation	44,010	44,045
Net finance costs	8,178	9,312
Gain on disposal of property, plant and equipment	(115)	(53)
<i>Add/ Less:</i>		
Movement in working capital	(21,858)	(136,508)
Income tax paid	(43,288)	(51,634)
Others	4,583	5,120
Net cash from operating activities	237,769	183,078
Cash flows from investing activities		
Acquisition of property, plant and equipment	(9,386)	(20,780)
Proceeds from disposal of property, plant and equipment	174	264
Others	742	852
Net cash used in investing activities	(8,470)	(19,664)
Cash flows from financing activities		
Finance costs paid	(8,920)	(10,164)
Repayment of borrowings	(100,000)	-
Payment of lease liabilities	(7,064)	(6,319)
Net cash used in financing activities	(115,984)	(16,483)
Net increase in cash and cash equivalents	113,315	146,931
Cash and cash equivalents at 1 January	(32,428)	(57,443)
Cash and cash equivalents at 31 March	80,887	89,488

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2019.

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 2019.

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, tools, furniture and equipment (include Asset Under Construction)
 Motor vehicles
 Information systems

3 months ended 31 Mar 2020	
Assets acquired RM'000	Assets disposed/ write-off RM'000
187	-
9,192	375
-	54
7	16
9,386	445

b. Right-of-use

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

Building

3 months ended 31 Mar 2020	
Addition & modification RM'000	Derecognition RM'000
153	94
153	94

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.

Segment revenue and results

Revenue
Operating Profit

3 months ended 31 Mar 2020		
Food & Beverages RM'000	Others RM'000	Total RM'000
1,157,708	276,806	1,434,514
220,306	39,961	260,267

Segment revenue and results

Revenue
Operating Profit

3 months ended 31 Mar 2019		
Food & Beverages RM'000	Others RM'000	Total RM'000
1,155,694	297,019	1,452,713
259,547	62,952	322,499

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

3 months ended 31.03.2020 RM'000	3 months ended 31.03.2019 RM'000
260,267	322,499
(6,226)	(714)
254,041	321,785

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:

IT shared service

Net finance costs

Purchases of goods and services

Sales of finished goods

Royalties

Management fees

3 months ended 31.03.2020 RM'000
9,546
751
246,115
244,987
69,421
3,346

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, 2020 vs Quarter 1, 2019)

For the first quarter ended 31 March 2020, total turnover for the Group reduced marginally from RM1.45 billion to RM1.43 billion. This was primarily due to a reduction in domestic sales of -3.4%, which is mitigated by a strong growth in export sales of +8.8%. The impact on domestic sales is partly due to the anticipated earlier timing of Chinese New Year and the impact of COVID-19 on the Out of Home Business, following the closure of restaurants, coffee shops and most other dine-in channels. The core Food & Beverages (F&B) business remained stable during this period.

The business performance for the quarter was supported by strong sales execution and effective marketing campaigns including the Nestlé Salary For Life Contest, the biggest to date ever organised by Nestlé in Malaysia.

Profit margins remained solid with Profit Before Tax at RM246.3 million and Profit After Tax at RM186.3 million but were impacted by the impact of COVID-19 on the Out-of-Home channels (lower sales leading to lower absolute margins), as well as higher commodity costs and the earlier Chinese New Year timing. Conscious choices were made to protect the safety of our employees and ensure the company continued to supply essential foods and beverages under the Movement Control Order, resulting in higher expenses in the quarter. All in all, this translated into a negative correction vs Q1 2019 of 21.3% in Profit Before Tax and 20.8% in Profit After Tax.

In more detail, we have deployed resources to minimize the risk of contagion in our sites and ensure safe working conditions. This has led to increased operational expenses related to the acquisition of Personal Protective Equipment, additional safety protocol adaptations in work sites and a number of other arrangements to protect our employees. We have also granted special allowances for our employees in the "front lines", i.e. those working in our factories, distribution centres and sales, as well as merchandisers and promoters. Additionally, significant funds have been allocated behind relief efforts to medical front liners, on top of a number of other pandemic relief actions, including our partnership with the Malaysian Red Crescent Society. These measures together with the reduction in profit from the out of home business have impacted our margins by 220bps. These relief efforts will continue as we advance into Q2 and H2, as part of our societal commitment.

2 Variation of results against previous quarter (Quarter 1, 2020 vs. Quarter 4, 2019)

For the first quarter ended 31 March 2020, the Group registered a turnover of RM1.43 billion, 7.9% higher than the fourth quarter of 2019, mainly contributed by higher sales for the Chinese New Year period.

Profit Before Tax was higher at RM246.3 million (+43 % vs the fourth quarter of 2019) on the back of the higher sales achieved. The higher profit was also due to the timing of commercial spend and operational expenses, which were higher in the fourth quarter of 2019 in preparation for an early Chinese New Year in 2020.

3 Current year prospects

Disruption from the COVID-19 situation is expected to persist throughout the next few months, compounded by some pressure from unfavorable exchange rates and higher prices for some commodities.

While it is difficult to anticipate the full extent of the changes this crisis will trigger, we are adapting to the challenges of a 'new normal' and leveraging new avenues for growth in 2020. We are capturing growth opportunities across all channels, including the e-commerce acceleration. We continue to expand the range of Nestlé products available for consumers shopping online. We will continue with our innovation drive and we have a strong pipeline of new products coming in the second part of the year.

Overall, we remain committed to delivering another year of solid and resilient results against a background of uncertainties and external challenges. We will also continue to build capabilities for the long-term. This year, we will be allocating the highest CAPEX investment in the last six years, at RM280 million. This investment will go into adding new manufacturing capabilities, including an important capacity expansion for our MAGGI noodle factory, as well as a latest production line in Shah Alam in preparation for entry into a new high growth category with great future potential.

We remain fully confident in Malaysia's potential and we are confident to see a return to economic growth once the current COVID-19 crisis is behind us.

4 Profit forecast

We do not issue any profit forecast.

5 Tax expense

Current tax

Malaysian - current period/year
- prior year

Total current tax expense

Deferred tax

Origination of temporary differences
Over provision in prior year

Total deferred tax expense

Total income tax expense

3 months ended	
31.03.2020	
RM'000	
	58,523
	(117)
	58,406
	1,752
	(206)
	1,546
	59,952

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 31.03.2020 RM'000
120,610
120,610

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 31.03.2020 :

Type of derivatives	Notional Value RM'000	Fair Value RM'000	Difference RM'000	Ageing
Forward exchange contracts	993,395	1,009,654	16,259	Less than 1 year
Commodity futures	6,608	3,894	(2,714)	Less than 1 year

11 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.

12 Dividend

No dividend is proposed in this quarter.

13 Subsequent event

The Board of Directors has declared an interim dividend of 140.00 sen per share (2018: nil) 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. (Instead of a final dividend of 140.00 sen per share, tax exempt under single tier system, amounting to RM328,300,000.00 in respect of financial year ending 31 December 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 4.30 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**Profit for the period/year is arrived at after charging:**

Depreciation of property, plant and equipment

Depreciation of right-of-use assets

Amortisation of intangible assets

Finance cost of lease liabilities

Property, plant and equipment written off

Impairment loss on trade 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

3 months ended 31 Mar	
2020 RM'000	2019 RM'000
35,192	35,681
8,426	7,781
392	583
1,890	2,015
386	16
35	957
4,176	3,681
115	53
29	-
3,132	1,363

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 31.03.2020				
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	39	-	-	39
Forward exchange contracts	-	20,775	-	20,775
Financial liabilities				
Forward exchange contracts	-	(4,516)	-	(4,516)
Commodity futures	(2,753)	-	-	(2,753)

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	-	-	25,261	25,261

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

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 RM186.3 million (RM235.2 million in March 2019) and the number of ordinary shares outstanding of 234.5 million (234.5 million in March 2019).

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 : May 5, 2020