



Good food, Good life

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

The Directors are pleased to present the Interim Report for the period ended 30 September 2022 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

	3 months ended 30 September			9 months ended 30 September		
	2022 RM'000	2021 RM'000	%	2022 RM'000	2021 RM'000	%
Revenue - Sale of goods	1,683,433	1,438,703	17.0%	5,016,162	4,267,290	17.5%
Cost of sales	(1,224,565)	(942,415)		(3,463,765)	(2,771,678)	
Gross profit	458,868	496,288	-7.5%	1,552,397	1,495,612	3.8%
Operating expenses	(298,786)	(280,766)		(846,695)	(866,820)	
Operating profit	160,082	215,522	-25.7%	705,702	628,792	12.2%
Finance costs	(11,055)	(8,452)		(31,413)	(25,680)	
Finance income	46	12		690	725	
Share of profit of an equity-accounted associate, net of tax	484	527		1,170	1,166	
Profit before tax	149,557	207,609	-28.0%	676,149	605,003	11.8%
Income tax expense	(36,909)	(59,589)		(188,667)	(147,295)	
Profit after tax	112,648	148,020	-23.9%	487,482	457,708	6.5%
Minority interests	-	-		-	-	
Profit after tax and minority interest	112,648	148,020	-23.9%	487,482	457,708	6.5%
Profit for the period	112,648	148,020	-23.9%	487,482	457,708	6.5%
Other comprehensive income/(expense), net of tax						
Item that may be reclassified to profit or loss in subsequent periods						
Cash flow hedge	5,146	(4,362)		1,662	1,493	
Total other comprehensive income/(expense) for the period, net of tax	5,146	(4,362)		1,662	1,493	
Total comprehensive income for the period	117,794	143,658	-18.0%	489,144	459,201	6.5%
Basic earnings per share (sen)	48.04	63.12		207.88	195.18	
Proposed/Declared dividend per share-net (sen)	70.00	70.00		140.00	140.00	
	AS AT END OF CURRENT QUARTER			AS AT PRECEDING FINANCIAL YEAR END		
Net assets per share attributable to owners of the parent (RM)	2.85			2.48		

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2021.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2022

	As at 30.09.2022 RM'000	As at 31.12.2021 RM'000
Assets		
Property, plant and equipment	1,573,065	1,534,268
Right-of-use assets	190,125	208,232
Intangible assets	62,472	63,342
Investment in an associate	6,639	5,949
Deferred tax assets	20,773	23,874
Trade and other receivables	8,411	9,228
Total non-current assets	1,861,485	1,844,893
Trade and other receivables	515,340	377,050
Inventories	1,119,947	744,987
Current tax assets	-	11,003
Cash and bank balances	17,117	6,898
Total current assets	1,652,404	1,139,938
Total assets	3,513,889	2,984,831
Equity		
Share capital	267,500	267,500
Hedging reserve	918	(744)
Retained earnings	400,083	315,941
Total equity attributable to owners of the parent	668,501	582,697
Liabilities		
Loans and borrowings	300,000	100,000
Lease liabilities	125,094	141,351
Employee benefits	88,903	89,859
Deferred tax liabilities	155,871	142,496
Total non-current liabilities	669,868	473,706
Trade and other payables	1,971,250	1,626,072
Loans and borrowings	131,410	245,693
Lease liabilities	26,825	26,962
Current tax liabilities	46,035	29,701
Total current liabilities	2,175,520	1,928,428
Total liabilities	2,845,388	2,402,134
Total equity and liabilities	3,513,889	2,984,831
Net assets per share attributable to owners of the parent (RM)	2.85	2.48

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2021.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2022**

	<i>Non-Distributable</i>		<i>Distributable</i>	Total Equity RM'000
	Share capital RM'000	Hedging reserve RM'000	Retained earnings RM'000	
At 1 January 2021	267,500	(3,534)	293,170	557,136
Cash flow hedge	-	1,493	-	1,493
Profit for the period	-	-	457,708	457,708
Total comprehensive income for the period	-	1,493	457,708	459,201
<u>Dividends to owners of the parent</u>				
- Interim dividend for the year 2020	-	-	(215,740)	(215,740)
- Interim dividend for the year 2021	-	-	(164,150)	(164,150)
At 30 September 2021	267,500	(2,041)	370,988	636,447
At 1 January 2022	267,500	(744)	315,941	582,697
Cash flow hedge	-	1,662	-	1,662
Profit for the period	-	-	487,482	487,482
Total comprehensive income for the period	-	1,662	487,482	489,144
<u>Dividends to owners of the parent</u>				
- Interim dividend for the year 2021	-	-	(239,190)	(239,190)
- Interim dividend for the year 2022	-	-	(164,150)	(164,150)
At 30 September 2022	267,500	918	400,083	668,501

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2021.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 SEPTEMBER 2022**

	9 months ended 30.09.2022 RM'000	9 months ended 30.09.2021 RM'000
Cash flows from operating activities		
Profit before tax	676,149	605,003
<i>Adjustments for:</i>		
Amortisation and depreciation	150,410	144,965
Impairment of property, plant and equipment	1,867	-
Net finance costs	30,723	24,955
Loss on disposal of property, plant and equipment	785	609
Provision and write off of inventories	38,413	662
<i>Add/ Less:</i>		
Movement in working capital	(378,751)	(4,980)
Income tax paid	(145,379)	(110,697)
Others	10,874	(941)
Net cash from operating activities	385,091	659,576
Cash flows from investing activities		
Acquisition of property, plant and equipment	(169,953)	(122,628)
Proceeds from disposal of property, plant and equipment	1,110	352
Others	1,170	1,115
Net cash used in investing activities	(167,673)	(121,161)
Cash flows from financing activities		
Finance costs paid	(31,413)	(25,680)
Proceeds from/(Repayment of) borrowings	85,000	(220,000)
Dividend payment	(239,190)	(215,740)
Payment of lease liabilities	(22,313)	(23,822)
Net cash used in financing activities	(207,916)	(485,242)
Net increase in cash and cash equivalents	9,502	53,173
Cash and cash equivalents at 1 January	(3,795)	(28,342)
Cash and cash equivalents at 30 September	5,707	24,831

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2021.

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 2021.

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 Sep 2022		9 months ended 30 Sep 2022	
	Assets acquired RM'000	Assets disposed / write-off RM'000	Assets acquired RM'000	Assets disposed / write-off RM'000
Building (improvements and additions)	4,026	623	5,560	668
Plant and machinery, tools, furniture and equipment (including Asset Under Construction)	75,426	1,622	153,100	2,462
Motor vehicles	-	-	4,001	556
Information systems	4,536	57	7,292	89
	83,988	2,302	169,953	3,775

b. Right-of-use

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

	3 months ended 30 Sep 2022		9 months ended 30 Sep 2022	
	Addition & modification RM'000	Derecognition RM'000	Addition & modification RM'000	Derecognition RM'000
Building	5,574	-	5,872	-
Tools and equipment	47	-	47	-
	5,621	-	5,919	-

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 was 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.

	9 months ended 30 September 2022		
	Food & Beverages	Others	Total
	RM'000	RM'000	RM'000
Segment revenue and results			
Revenue	4,142,356	873,806	5,016,162
Operating Profit	625,928	80,691	706,619

	9 months ended 30 September 2021		
	Food & Beverages	Others	Total
	RM'000	RM'000	RM'000
Segment revenue and results			
Revenue	3,571,732	695,558	4,267,290
Operating Profit	579,136	50,737	629,873

The comments on page 6 apply to both segments Food & Beverages (83% of total sales) and Others (17% of total sales).

Reconciliations of reportable segment operating profit:

	9 months ended 30.09.2022 RM'000	9 months ended 30.09.2021 RM'000
Total operating profit for reported segments	706,619	629,873
Other unallocated expense	(917)	(1,081)
Consolidated operating profit	705,702	628,792

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 material 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 8.

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 30.09.2022 RM'000	9 months ended 30.09.2022 RM'000
Sales of goods	352,056	1,000,931
Rendering of services	13,484	30,805
Purchases of goods and services	363,796	1,126,334
Purchases of plant and equipment	68,963	70,767
Royalty expenses	79,824	242,174
IT shared service expenses	12,201	36,808
Finance costs	2,854	5,850

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 3, 2022 vs Quarter 3, 2021)

For the third quarter ended 30 September 2022, the Group delivered a turnover of RM1.68 billion, reflecting a 17.0% increase compared with the same quarter last year. Domestic and export sales increased by 13.5% and 30.2% respectively as economic activities continued to stabilise both locally and globally. Out-of-Home (OOH) channels continued to recover compared to the same period last year, which saw OOH businesses impacted by movement restrictions in certain areas of Malaysia.

The Group recorded Profit Before Tax (PBT) and Profit After Tax (PAT) of RM149.6 million and RM112.6 million respectively in Q3 2022. This was lower compared with the same period last year, primarily due to the impact of higher commodity prices and unfavourable exchange rates, as well as the quarterly impact of *Cukai Makmur* (Prosperity Tax) on PAT.

2 Review of performance (Year-to-date, 2022 vs Year-to-date, 2021)

For the first nine months ended 30 September 2022, the Group turnover reached RM5.02 billion, marking a 17.5% increase from RM4.27 billion in the same period last year. Domestic and export sales grew by 13.7% and 33.8% respectively on the back of solid growth in both the core Food and Beverage (F&B) and OOH segments, which continued to benefit from strong recovery following the full lifting of movement restrictions earlier in the year.

We have seen another quarter with robust demand for our portfolio of products and brands, confirming that we are well tuned with the expectations and demands of Malaysian consumers. We remain committed to bring our "Good Food, Good Life" promise to Malaysians of all walks of life, wherever they are and in whichever format they like our products. The commitment and efforts of all the Nestlé teams enable us to preserve Nestlé Malaysia's leading position amongst the FMCG industry. Nestlé continues to stand strong as we celebrate our 110th year in Malaysia.

With the progressive return to pre-pandemic normalcy, we have been leveraging all opportunities to increase the reach of our core products, while continuing to lead in product innovation. This included further expansion of our plant-based meal solutions with the launch of the HARVEST GOURMET Plant-Based Nuggets and other innovations such as NESTLÉ OMEGA PLUS Dark Chocolate Milk Powder, our healthier choice MAGGI Nutri-licious Noodles range, the introduction of our premium chocolate block range under NESTLÉ LES RECETTES DE L'ATELIER Chocolate and KITKAT Bar Dark with Southern Australian Oranges, to name a few. We continue to support all these initiatives with effective marketing support with increased focus on digital. We have also seen strong demand across key export categories including Ready-to-Drink formats, Foods and Confectionery.

For the nine-month period under review, higher sales and lower COVID-19 expenses helped to partially mitigate the impact of higher commodity prices, unfavourable exchange rates and the impact of *Cukai Makmur* on PAT. The Group's PBT and PAT increased by 11.8% and 6.5% to RM676.1 million and RM487.5 million respectively for this period.

In line with the Group's commitment to deliver value to shareholders, the Board declared a second interim dividend of RM0.70 per share for the financial year ending 31 December 2022, consistent with the second interim dividend of 2021.

3 Variation of results against previous quarter (Quarter 3, 2022 vs. Quarter 2, 2022)

For the third quarter ended 30 September 2022, the Group registered slightly higher turnover of RM1.68 billion, 2.7% higher compared to the second quarter of 2022, mainly due to higher exports.

Profit Before Tax was lower at RM149.6 million, mainly due to the higher commodity prices and unfavourable exchange rates.

4 Current year prospects

As we move ahead into the final quarter of the year, we remain in a resilient position to deliver a year of solid growth. Nevertheless, we continue to contend with tough market conditions defined by high commodity prices and energy costs, in a challenging and volatile global environment. Adding to this, the Malaysian Ringgit has depreciated to its weakest point against the USD in many years, further compounding the impact from imported commodities, even if this has been partially softened by our hedging policy.

In this context, we will remain focused on what matters: meeting the expectations of taste and quality of all Malaysians and nurturing the strong bonds of our brands with the Rakyat. We will continue to enhance operational efficiencies to moderate the impact of external cost headwinds. And last, but not least, we will continue driving our ESG agenda with our comprehensive set of green initiatives making good progress.

5 Profit forecast

We do not issue any profit forecast.

6 Income tax expense

3 months ended 30.09.2022 RM'000	9 months ended 30.09.2022 RM'000
45,317	177,005
(4,289)	(4,289)
41,028	172,716
5,611	25,394
(9,730)	(9,443)
(4,119)	15,951
36,909	188,667

Current tax

Malaysian - current period
- prior year

Total current tax expense

Deferred tax

Origination and reversal of temporary differences
Over provision in prior year

Total deferred tax expense

Total income tax expense

The Group's effective tax rate for the current quarter and year-to-date September 2022 were 24.7% and 27.9% respectively due to the impact of Cukai Makmur (Prosperity Tax) for YA2022.

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

Revolving credit
Bank overdraft

Total short term loans

Long term - Unsecured loans

Loan from a related company

Total long term loans

As at 30.09.2022 RM'000
120,000
11,410
131,410
300,000
300,000

11 Derivatives

(a) Summary of outstanding derivative assets / (liabilities) as at 30.09.2022 :

Type of derivatives	Notional Value RM'000	Fair Value RM'000	Difference RM'000	Ageing
Forward exchange contracts	1,356,462	1,365,496	9,034	Less than 1 year

(b) Fair value changes of financial liabilities

Other than derivatives which are classified as liabilities only when they are at fair value loss position as at the end of the reporting period, the Group does not remeasure its financial liabilities at fair value after the initial recognition.

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 ("IP 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 IP Court to be heard together with NPSB's claim. The IP Court has recently heard and disposed of an interlocutory striking out application filed by Mad Labs and CKL to remove CKL as a named defendant in the counter suit filed by NPSB against Mad Labs and CKL. On 21 October 2020, Mad Labs and CKL have filed a Notice of Appeal against the IP Court's dismissal of CKL's striking out application and subsequently on 11 January 2022, the Court of Appeal has dismissed CKL's appeal with cost awarded to Nestlé.

The high court trial at the IP Court which commenced on 10 June 2021 remains on-going. Parties have since completed cross-examining and re-examining all trial witnesses that were called/subpoenaed and the Court has fixed dates for parties to file written and reply submissions on 22 November 2022 and 13 December 2022 respectively. Parties' representing solicitors are required to further attend Court on 12 January 2023 to provide oral submissions.

Based on the initial 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 sen per share (2021: 70 sen per share) in respect of year ending 31 December 2022 which will be paid on 15 December 2022 to shareholders whose names appear on the Record of Depositors on 18 November 2022. 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 18 November 2022 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 Sep		9 months ended 30 Sep	
	2022 RM'000	2021 RM'000	2022 RM'000	2021 RM'000
Profit for the period is arrived at after charging:				
Depreciation of property, plant and equipment	43,355	41,118	125,514	116,421
Depreciation of right-of-use assets	8,593	9,271	24,026	27,675
Amortisation of intangible assets	290	290	870	869
Finance cost of lease liabilities	1,483	1,666	4,481	5,216
Impairment loss on property, plant and equipment	1,475	-	1,867	-
Property, plant and equipment written off	975	156	1,880	399
Loss on disposal of property, plant and equipment	1,139	672	785	609
Net loss on derivatives	71	10	97	58
Impairment loss on trade receivables	-	52	-	-
Provision and write off of inventories	40,083	656	38,413	662
Net foreign exchange loss	11,609	-	28,602	-
and after crediting:				
Reversal of impairment loss on trade receivables	57	-	298	389
Net foreign exchange gain	-	3,336	-	506

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 RM487.5 million (RM457.7 million in September 2021) and the number of ordinary shares outstanding of 234.5 million (234.5 million in September 2021).

b. Diluted earnings per share

Not applicable for the Group.

BY ORDER OF THE BOARD
Tengku Ida Adura Binti Tengku Ismail
Company Secretary
(SSM PC No. 201908001581)
(MACS 01686)

Date : 26 October, 2022