



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 June 2023 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2023

	3 months ended 30 June			6 months ended 30 June		
	2023 RM'000	2022 RM'000	%	2023 RM'000	2022 RM'000	%
Revenue - Sale of goods	1,750,922	1,638,978	6.8%	3,593,331	3,332,729	7.8%
Cost of sales	(1,186,237)	(1,121,211)		(2,465,285)	(2,239,200)	
Gross profit	564,685	517,767	9.1%	1,128,046	1,093,529	3.2%
Operating expenses	(310,680)	(269,916)		(596,983)	(547,909)	
Operating profit	254,005	247,851	2.5%	531,063	545,620	-2.7%
Finance costs	(14,373)	(10,310)		(29,288)	(20,358)	
Finance income	22	94		100	644	
Share of profit of an equity-accounted associate, net of tax	187	310		283	686	
Profit before tax	239,841	237,945	0.8%	502,158	526,592	-4.6%
Income tax expense	(58,922)	(68,291)		(124,094)	(151,758)	
Profit after tax	180,919	169,654	6.6%	378,064	374,834	0.9%
Minority interests	-	-		-	-	
Profit after tax and minority interest	180,919	169,654	6.6%	378,064	374,834	0.9%
Profit for the period	180,919	169,654	6.6%	378,064	374,834	0.9%
Other comprehensive income/(expense), net of tax						
Item that may be reclassified to profit or loss in subsequent periods						
Cash flow hedge	1,319	(4,843)		1,818	(3,484)	
Total other comprehensive income/(expense) for the period, net of tax	1,319	(4,843)		1,818	(3,484)	
Total comprehensive income for the period	182,238	164,811	10.6%	379,882	371,350	2.3%
Basic earnings per share (sen)	77.15	72.35		161.22	159.84	
Proposed/Declared dividend per share-net (sen)	70.00	70.00		70.00	70.00	
	AS AT END OF CURRENT QUARTER			AS AT PRECEDING FINANCIAL YEAR END		
Net assets per share attributable to owners of the parent (RM)	3.07			2.67		

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2022.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023

	As at 30.06.2023 RM'000	As at 31.12.2022 RM'000
Assets		
Property, plant and equipment	1,667,650	1,669,316
Right-of-use assets	171,654	184,583
Intangible assets	200,518	62,183
Investment in an associate	6,151	6,288
Deferred tax assets	24,920	24,140
Trade and other receivables	8,471	8,283
Total non-current assets	2,079,364	1,954,793
Trade and other receivables	531,132	445,201
Inventories	917,664	1,115,083
Current tax assets	12,044	30,763
Cash and bank balances	30,832	8,171
Total current assets	1,491,672	1,599,218
Total assets	3,571,036	3,554,011
Equity		
Share capital	267,500	267,500
Hedging reserve	(5,577)	(7,395)
Retained earnings	458,185	366,211
Total equity attributable to owners of the parent	720,108	626,316
Liabilities		
Loans and borrowings	300,000	300,000
Lease liabilities	107,945	120,036
Employee benefits	82,171	84,267
Deferred tax liabilities	168,275	164,421
Total non-current liabilities	658,391	668,724
Trade and other payables	1,701,616	1,724,873
Loans and borrowings	456,519	486,890
Lease liabilities	27,660	27,496
Current tax liabilities	6,742	19,712
Total current liabilities	2,192,537	2,258,971
Total liabilities	2,850,928	2,927,695
Total equity and liabilities	3,571,036	3,554,011
Net assets per share attributable to owners of the parent (RM)	3.07	2.67

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2022.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2023**

	<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 2022	267,500	(744)	315,941	582,697
Cash flow hedge	-	(3,484)	-	(3,484)
Profit for the period	-	-	374,834	374,834
Total comprehensive income for the period	-	(3,484)	374,834	371,350
<u>Dividends to owners of the parent</u>				
- Interim dividend for the year 2021	-	-	(239,190)	(239,190)
At 30 June 2022	267,500	(4,228)	451,585	714,857
At 1 January 2023	267,500	(7,395)	366,211	626,316
Cash flow hedge	-	1,818	-	1,818
Profit for the period	-	-	378,064	378,064
Total comprehensive income for the period	-	1,818	378,064	379,882
<u>Dividends to owners of the parent</u>				
- Interim dividend for the year 2022	-	-	(286,090)	(286,090)
At 30 June 2023	267,500	(5,577)	458,185	720,108

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2022.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2023**

	6 months ended 30.06.2023 RM'000	6 months ended 30.06.2022 RM'000
Cash flows from operating activities		
Profit before tax	502,158	526,592
<i>Adjustments for:</i>		
Amortisation and depreciation	101,594	98,172
Impairment loss on property, plant and equipment	3,660	392
Net finance costs	29,188	19,714
Loss/(Gain) on disposal of property, plant and equipment	518	(354)
Net write-down/(reversal) of slow moving inventories	5,757	(1,670)
<i>Add/Less:</i>		
Movement in working capital	89,206	(288,364)
Income tax paid	(114,831)	(77,350)
Others	4,907	4,270
Net cash from operating activities	622,157	281,402
Cash flows from investing activities		
Acquisition of property, plant and equipment	(89,983)	(85,965)
Acquisition of a subsidiary, net of cash acquired	(151,090)	-
Proceeds from disposal of property, plant and equipment	800	922
Others	520	1,124
Net cash used in investing activities	(239,753)	(83,919)
Cash flows from financing activities		
Finance costs paid	(29,288)	(20,358)
Proceeds from borrowings	140,000	100,000
Dividends paid	(286,090)	(239,190)
Payment of lease liabilities	(13,994)	(14,464)
Net cash used in financing activities	(189,372)	(174,012)
Net increase in cash and cash equivalents	193,032	23,471
Cash and cash equivalents at 1 January	(178,719)	(3,795)
Cash and cash equivalents at 30 June	14,313	19,676

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2022.

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 2022.

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

Other than as disclosed in Note 11 on page 6, 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 June 2023		6 months ended 30 June 2023	
	Assets acquired ¹ RM'000	Assets disposed / write-off RM'000	Assets acquired ¹ RM'000	Assets disposed / write-off RM'000
Building (improvements and additions)	1,164	137	2,220	268
Plant and machinery, tools, furniture and equipment (including Asset Under Construction)	52,875	1,133	83,419	1,769
Motor vehicles	-	-	-	31
Information systems	2,706	34	4,484	42
	56,745	1,304	90,123	2,110

¹ Included in the assets acquired are plant and machinery, tools, furniture and equipment (including Asset Under Construction) and information systems acquired via the acquisition of a subsidiary amounting to RM1k and RM139k respectively.

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 June 2023		6 months ended 30 June 2023	
	Addition & modification ¹ RM'000	Derecognition RM'000	Addition & modification ¹ RM'000	Derecognition RM'000
Building	1,225	-	1,225	-
Tools and equipment	-	-	842	-
	1,225	-	2,067	-

¹ Included in the addition & modification is the leases of building acquired via the acquisition of a subsidiary amounting to RM34k.

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

Dividends paid during the reporting period are as follows:

	3 months ended 30.06.2023 RM'000	6 months ended 30.06.2023 RM'000
Interim dividend for the financial year ended 31 December 2022 3rd interim: 122.00 sen per share (single-tier)	286,090	286,090
Total	286,090	286,090

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 Chief Executive Officer and Chief Financial Officer.
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 June 2023		
Food & Beverages RM'000	Others RM'000	Total RM'000
2,977,085	616,246	3,593,331
467,597	64,141	531,738

Segment revenue and results

Revenue
Operating Profit

6 months ended 30 June 2022		
Food & Beverages RM'000	Others RM'000	Total RM'000
2,754,522	578,207	3,332,729
482,901	63,319	546,220

The comments on page 7 apply to both segments Food & Beverages (83% of total sales) and Others (17% of total sales).

Reconciliations of reportable segment operating profit:

Total operating profit for reported segments
Other unallocated expense

Consolidated operating profit

6 months ended 30.06.2023 RM'000	6 months ended 30.06.2022 RM'000
531,738	546,220
(675)	(600)
531,063	545,620

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 Material events subsequent to the current quarter

There were no material events subsequent to the current quarter up to the date of this report.

11 Changes in the composition of the Group

On 22 February 2023, the Group has entered into a conditional share purchase agreement with Wyeth (Hong Kong) Holding Company Limited for the acquisition of the entire equity interest in Wyeth Nutrition (Malaysia) Sdn. Bhd. for a cash consideration of RM165.0 million ("Proposed Acquisition"). The Proposed Acquisition was approved by the shareholders at an Extraordinary General Meeting held on 26 April 2023 and was completed on 30 June 2023.

Summary of effects of the Proposed Acquisition on the consolidated statement of financial position of the Group is illustrated as follows:

Identifiable net assets as at acquisition date	RM'000
Assets	
Property, plant and equipment	140
Right-of-use assets	34
Deferred tax assets	2
Trade and other receivables	45,352
Inventories	19,510
Cash and bank balances	13,910
Current tax assets	1,012
Total Assets	<u>79,960</u>
Liabilities	
Trade and other payables	(53,839)
Lease liabilities	(35)
Total liabilities	<u>(53,874)</u>
Total identifiable net assets acquired	26,086
Goodwill arising on acquisition *	138,914
Purchase consideration transferred	<u>165,000</u>

* Subject to Purchase Price Allocation ("PPA") exercise to be completed within one year from the acquisition date.

Summary of effects of the Proposed Acquisition on the consolidated statement of cash flows:

	RM'000
Cash consideration	165,000
Less: Cash and cash equivalents of subsidiary acquired	(13,910)
Net cash outflow on the acquisition	<u>151,090</u>

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 9.

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 30.06.2023 RM'000	6 months ended 30.06.2023 RM'000
Sales of goods	283,311	608,687
Rendering of services	10,580	19,876
Purchases of goods and services	448,178	898,492
Purchases of plant and equipment	13,986	23,225
Royalty expenses	87,101	178,889
IT shared service expenses	15,080	28,629
Finance costs	3,768	7,511

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, 2023 vs Quarter 2, 2022)

For the second quarter ended 30 June 2023, the Group recorded a turnover of RM1.75 billion, up by 6.8% from RM1.64 billion in the same quarter last year. This was primarily attributable to growth in domestic sales, which saw double-digit growth of 11.6%. This was slightly offset by lower export sales on the back of a strong baseline in the previous year's corresponding quarter.

Our growth strategy remains anchored on delivering high-quality, great-tasting and nutritious products that meet the expectations of Malaysians and are in good synergy with the diverse and evolving preferences across multiple consumer segments. These solid results continue to reflect the solid sales execution across all commercial channels, as well as the relevance of our brands and product offerings. Our core products continued to perform very well, while we brought to market further relevant product innovations that received positive consumer response. This is thanks once again to all Malaysians for their trust in our brands, which is the best recognition and credit to the relentless work and dedication by all our teams.

The Group's innovation efforts translated into a number of exciting new products introduced during the quarter. The MAGGI Noodles range added two new great-tasting varieties with MAGGI Mi Goreng Laksa Warisan and MAGGI Pedas Giler Cheezy Berapi. The HARVEST GOURMET plant-based range introduced the all-new Crispy Fish-Free Fingers, a delicious and nutritious snacking solution that will further extend the interest of Malaysians for plant-based meal options. New formats were added to the KIT KAT range, while NESCAFÉ introduced the innovative 2 in 1 cold coffee mixes that can be simply prepared just by adding cold milk and ice. Last but not least, the Lively Tea range saw the addition of a refreshing lemon tea variety in the later part of the quarter.

Profit Before Tax (PBT) and Profit After Tax (PAT) increased to RM239.8 million and RM180.9 million respectively in Q2 2023. This was supported by the solid growth, as well as the continuous focus on internal efficiencies, amidst sustained pressure on commodity prices. The profit improvement was compatible with higher marketing investment that helped to further fuel accelerated growth and gain market share in several segments.

Alongside our financial performance, we continued to drive our Environmental, Social and Governance (ESG) initiatives. We saw solid progress in our various efforts, with special mention to the progress of our reforestation programme, Project RELeaf, that completed the planting of the first million trees. After the interruption during COVID-19 lockdowns, this milestone puts us back on track to complete our 3 Million Trees commitment by H1 2025.

Another important milestone was the renewal of MILO's sponsorship agreement with the Olympic Council of Malaysia until 2028 that will see Malaysian's favourite nutritious beverage continue providing support for Malaysian athletes, starting with the Olympic and Paralympic Games 2024, amongst others. Also worth mentioning are our ongoing efforts to encourage healthier eating habits among Malaysian families via our 'Together in the Kitchen' campaign, as part of our global Nestlé for Healthier Kids (N4HK) programme, which aims to empower 50 million children worldwide to lead healthier lives by the year 2030.

2 Review of performance (Year-to-date, 2023 vs Year-to-date, 2022)

For the first half ended 30 June 2023, the Group registered a turnover of RM3.59 billion, an increase of 7.8% from RM3.33 billion in the same period last year. This was mainly due to higher domestic sales, which saw double-digit growth on the back of strong domestic demand, with a more subdued contribution from export sales, that had benefitted through H1 2022 of a strong recovery from the re-opening of global economy following the pandemic.

The Group registered a PBT and PAT of RM502.2 million and RM378.1 million respectively for the first half of the year. The cumulative resilient results for the half-year period benefitted from the added scale from growth, while being somewhat impacted by ongoing tensions in commodity prices and the weakening of the ringgit. PAT was also helped by the non-repeat of Cukai Makmur (Prosperity Tax) paid in 2022.

In line with the Group's commitment to delivering value for shareholders, the Board declared an interim dividend of RM0.70 per share for the financial year ending 31 December 2023, consistent with the first interim dividend of 2022.

3 Variation of results against previous quarter (Quarter 2, 2023 vs. Quarter 1, 2023)

For the second quarter ended 30 June 2023, the Group registered a turnover of RM1.75 billion, 5.0% lower compared to the first quarter of 2023, mainly due to the higher sales recorded in Q1 2023 during the Chinese New Year period.

Profit Before Tax was lower at RM239.8 million, mainly due to the lower sales and higher marketing spend.

4 Current year prospects

While multiple factors of uncertainty remain, especially those derived from a weakened Ringgit and the ongoing volatility in commodity and energy markets, we remain confident in our ability to deliver another year of solid sales growth, improved cash flow performance and resilient profitability and shareholder return. We will do this by delivering high-quality, nutritious and great-tasting products that cater to the diverse needs and expectations of Malaysians. In addition to solid commercial and financial performance, we will continue driving and advancing our ESG agenda in its different fronts, including reforestation, packaging sustainability and progressive decarbonization of our operations, while continuing to leverage our presence and scale to make a positive impact in the country.

5 Profit forecast

We do not issue any profit forecast.

6 Income tax expense

Current tax

Malaysian - current period

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 30.06.2023 RM'000	6 months ended 30.06.2023 RM'000
56,844	121,592
56,844	121,592
1,136	749
942	1,753
2,078	2,502
58,922	124,094

The Group's effective tax rate for the current quarter was 24.6% which was higher than the 24.0% statutory tax rate mainly due to certain expenses were not deductible for tax purposes.

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 announced but not completed at the date of this report.

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 30.06.2023 RM'000
440,000
16,519
456,519
300,000
300,000

11 Derivatives

a. Summary of outstanding derivative assets / (liabilities) as at 30.06.2023 :

Type of derivatives	Notional Value RM'000	Fair Value RM'000	Difference RM'000	Ageing
Forward exchange contracts	1,044,015	1,045,007	992	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 Kuala Lumpur High Court has allowed the consolidation and transfer of Mad Labs' claim to the IP Court to be heard together with NPSB's claim. The high court trial at the IP Court has since completed on 10 April 2023. The judge who initially fixed 1 June 2023 for decision to be delivered has since postponed the decision date to 18 August 2023.

Based on the initial opinion rendered by Messrs. Zaid Ibrahim & Co., the then solicitors of NPSB, 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 (2022: 70 sen per share) in respect of year ending 31 December 2023 which will be paid on 5 October 2023 to shareholders whose names appear on the Record of Depositors on 6 September 2023. 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 6 September 2023 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 June		6 months ended 30 June	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
Profit for the period is arrived at after charging:				
Depreciation of property, plant and equipment	43,390	41,936	86,019	82,159
Depreciation of right-of-use assets	7,638	7,726	14,996	15,433
Amortisation of intangible assets	289	290	579	580
Finance cost of lease liabilities	1,299	1,463	2,637	2,998
Impairment loss on property, plant and equipment	3,660	392	3,660	392
Property, plant and equipment written off	3	889	793	905
Net loss on termination of leased assets	-	536	-	552
Loss on disposal of property, plant and equipment	574	12	518	-
Net loss on derivatives	-	33	54	26
Impairment loss on trade receivables	15	-	47	-
Net write-down of slow moving inventories	-	-	5,757	-
Net foreign exchange loss	6,396	14,910	1,602	16,993
and after crediting:				
Gain on disposal of property, plant and equipment	-	-	-	354
Net gain on derivatives	52	-	-	-
Reversal of impairment loss on trade receivables	-	105	-	241
Net reversal of slow moving inventories	9,142	2,074	-	1,670

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 RM378.1 million (RM374.8 million in June 2022) and the number of ordinary shares outstanding of 234.5 million (234.5 million in June 2022).

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 : 27 July, 2023