



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 JUNE 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2021

	3 months ended 30 June			6 months ended 30 June		
	2021 RM'000	2020 RM'000	%	2021 RM'000	2020 RM'000	%
Revenue - Sales of goods	1,379,814	1,219,300	13.2%	2,828,587	2,653,814	6.6%
Cost of sales	(899,344)	(778,698)		(1,829,263)	(1,686,012)	
Gross profit	480,470	440,602	9.0%	999,324	967,802	3.3%
Operating expenses	(295,181)	(292,846)		(586,054)	(566,005)	
Operating profit	185,289	147,756	25.4%	413,270	401,797	2.9%
Finance costs	(8,480)	(8,344)		(17,228)	(17,264)	
Finance income	62	760		713	1,502	
Share of post tax profit of an associate	145	(32)		639	364	
Profit before tax	177,016	140,140	26.3%	397,394	386,399	2.8%
Tax expense	(42,491)	(34,607)		(87,706)	(94,559)	
Profit after tax	134,525	105,533	27.5%	309,688	291,840	6.1%
Minority interests	-	-		-	-	
Profit after tax and minority interest	134,525	105,533	27.5%	309,688	291,840	6.1%
Profit for the period	134,525	105,533	27.5%	309,688	291,840	6.1%
Other comprehensive (expense)/income, net of tax						
Item that is or may be reclassified subsequently to profit or loss						
Cash flow hedge	(2,360)	(2,973)		5,855	3,249	
Total other comprehensive (expense)/income for the period, net of tax	(2,360)	(2,973)		5,855	3,249	
Total comprehensive income for the period	132,165	102,560	28.9%	315,543	295,089	6.9%
Basic earnings per share (sen)	57.37	45.00		132.06	124.45	
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 equity holders (RM)	2.80			2.38		

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2020.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021

	As at 30.06.2021 RM'000	As at 31.12.2020 RM'000
Assets		
Property, plant and equipment	1,432,686	1,423,843
Right-of-use assets	223,047	238,238
Intangible assets	63,921	64,500
Investment in an associate	5,863	5,614
Deferred tax assets	26,841	36,238
Trade and other receivables	11,106	13,056
Total non-current assets	1,763,464	1,781,489
Trade and other receivables	344,753	472,705
Inventories	631,047	597,270
Current tax assets	1,569	548
Cash and bank balances	10,353	9,359
Total current assets	987,722	1,079,882
Total assets	2,751,186	2,861,371
Equity		
Share capital	267,500	267,500
Hedging reserve	2,321	(3,534)
Retained earnings	387,118	293,170
Total equity attributable to owners of the Company	656,939	557,136
Liabilities		
Loans and borrowings	100,000	100,000
Lease liabilities	151,134	162,846
Employee benefits	90,410	90,592
Deferred tax liabilities	126,328	133,968
Total non-current liabilities	467,872	487,406
Trade and other payables	1,389,165	1,480,838
Loans and borrowings	144,964	257,701
Lease liabilities	30,723	31,063
Current tax liabilities	61,523	47,227
Total current liabilities	1,626,375	1,816,829
Total liabilities	2,094,247	2,304,235
Total equity and liabilities	2,751,186	2,861,371
Net assets per share attributable to shareholders (RM)	2.80	2.38

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2020.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2021**

	Non Distributable		Distributable	Total Equity RM'000
	Share capital	Hedging reserve	Retained profits	
	RM'000	RM'000	RM'000	
At 1 January 2020	267,500	(931)	398,355	664,924
Cash flow hedge	-	3,249	-	3,249
Profit for the period	-	-	291,840	291,840
Total comprehensive income for the period	-	3,249	291,840	295,089
<u>Dividends to owners of the company</u>				
- Interim dividend for the financial year 2019	-	-	(328,300)	(328,300)
At 30 June 2020	267,500	2,318	361,895	631,713
At 1 January 2021	267,500	(3,534)	293,170	557,136
Cash flow hedge	-	5,855	-	5,855
Profit for the period	-	-	309,688	309,688
Total comprehensive income for the period	-	5,855	309,688	315,543
<u>Dividends to owners of the company</u>				
- Interim dividend for the financial year 2020	-	-	(215,740)	(215,740)
At 30 June 2021	267,500	2,321	387,118	656,939

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2020.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2021**

	6 months ended 30.06.2021 RM'000	6 months ended 30.06.2020 RM'000
Cash flows from operating activities		
Profit before tax	397,394	386,399
<i>Adjustments for:</i>		
Amortisation and depreciation	94,286	87,213
Net finance costs	16,515	15,762
Gain on disposal of property, plant and equipment	(64)	(137)
Movement in working capital	9,527	(54,469)
Income tax paid	(74,523)	(80,121)
Others	2,051	2,230
Net cash from operating activities	445,186	356,877
Cash flows from investing activities		
Acquisition of property, plant and equipment	(84,848)	(34,108)
Proceeds from disposal of property, plant and equipment	523	195
Others	1,103	1,952
Net cash used in investing activities	(83,222)	(31,961)
Cash flows from financing activities		
Finance costs paid	(17,228)	(17,264)
Repayment of borrowings	(90,000)	-
Dividend payment	(215,740)	(328,300)
Payment of lease liabilities	(15,265)	(14,250)
Net cash used in financing activities	(338,233)	(359,814)
Net increase/(decrease) in cash and cash equivalents	23,731	(34,898)
Cash and cash equivalents at 1 January	(28,342)	(32,428)
Cash and cash equivalents at 30 June	(4,611)	(67,326)

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2020.

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 2020.

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

Besides the COVID-19 situation as elaborated in the Additional Information section, there were no unusual items affecting assets, liabilities, equity, net income or cash flow of the Group.

a. Property, plant and equipment

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

	3 months ended 30 Jun 2021		6 months ended 30 Jun 2021	
	Assets acquired RM'000	Assets disposed / write-off RM'000	Assets acquired RM'000	Assets disposed / write-off RM'000
Building (improvements and additions)	1,289	-	3,346	8
Plant and machinery, tools, furniture and equipment (include Asset Under Construction)	40,141	139	77,212	238
Motor vehicles	-	74	3,438	242
Information systems	82	134	852	214
	41,512	347	84,848	702

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 30 Jun 2021		6 months ended 30 Jun 2021	
	Addition & modification RM'000	Derecognition RM'000	Addition & modification RM'000	Derecognition RM'000
Building	2,646	-	2,646	-
Tools and equipment	567	-	567	-
	3,213	-	3,213	-

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 30.06.2021 RM'000	6 months ended 30.06.2021 RM'000
Interim dividend for the financial year ended 31 December 2020 3rd interim: 92.00 sen per share (single-tier)	215,740	215,740
Total	215,740	215,740

8 Operating segment

MFRS 8 requires separate reporting of segmental information for operating segments. Operating segments reflect the Group's management structure and the way financial information is regularly reviewed by the Group's chief operating decision maker, which is defined as the Executive Board. The Group is focused in two areas of activity, Food & Beverages and Others which include Nutrition, Nestlé Professional, Nestlé Health Science and NESPRESSO.

Segment revenue and results

Revenue
Operating Profit

6 months ended 30 Jun 2021		
Food & Beverages RM'000	Others RM'000	Total RM'000
2,359,864	468,723	2,828,587
379,999	33,988	413,987

Segment revenue and results

Revenue
Operating Profit

6 months ended 30 Jun 2020		
Food & Beverages RM'000	Others RM'000	Total RM'000
2,212,494	441,320	2,653,814
377,626	24,481	402,107

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:

Total operating profit for reported segments
Other unallocated expense
Consolidated operating profit

6 months ended 30.06.2021 RM'000	6 months ended 30.06.2020 RM'000
413,987	402,107
(717)	(310)
413,270	401,797

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 7.

13 Related party transactions

Transactions related to Nestlé S.A. and companies owned by Nestlé S.A. and other affiliates are as follows:

Sales of finished goods
Rendering of services
Purchases of goods and services
Royalty expenses
IT shared service expenses
Finance costs

3 months ended 30.06.2021 RM'000	6 months ended 30.06.2021 RM'000
212,474	457,165
6,537	12,087
293,503	625,000
70,509	143,518
12,048	24,492
837	1,664

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, 2021 vs Quarter 2, 2020)

For the second quarter ended 30 June 2021, total turnover for the group increased by 13.2% to RM1.38 billion from RM1.22 billion in the previous year's corresponding quarter. This was driven by robust domestic sales growth of 15.8%, on the back of the Group's strong core F&B business, which grew by 8.4% in Q2 2021. The Out-Of-Home (OOH) business under Nestlé Professional saw a solid improvement against very low sales in the same quarter last year when the early lockdowns had the most dramatic impact on this sector of activity. The focus on supplying the local market amidst operational restriction had some impact on the export business, which only grew by 2.5% in Q2 2021.

Our key priority remains to ensure people's safety and supply continuity, which has required an immense effort and resilience from all our teams. Systematic antigen testing of the workforce and solid containment SOPs have been instrumental to keep our sales and operations running to fulfil the solid demand we have seen across most of our brands. While COVID-19 continues to have an impact in the short term, we have continued to build capabilities for the future, entering new high growth categories, as well as advancing on our environmental sustainability programs.

The Group delivered a sizeable stream of new products during the quarter. This included the roll-out of the Harvest Gourmet plant-based range into the retail market and the introduction of Dairy-Free versions of MILO and NESCAFÉ. Other new products launched in Q2 2021 include the LIVELY Tea range, the extension of the Ice NESCAFÉ range and the entrance into the chocolate tablet segment with the new KIT KAT Blocks.

Profit Before Tax and Profit After Tax increased to RM177.0 million and RM134.5 million respectively in Q2 2021. This recovery vs Q2 2020 was mainly driven by the top line acceleration and was slightly moderated by higher commodity prices and increased marketing spend compared to the MCO period in 2020. Additionally, the COVID-19 related expenses remained sizeable in Q2 reflecting the cost of the mass antigen screening programme, personal protective equipment (PPE) and other measures to ensure infection prevention and containment on site.

2 Review of performance (Year-to-date, 2021 vs Year-to-date, 2020)

For the first half ended 30 June 2021, the Group's turnover increased by 6.6% to RM2.83 billion, from RM2.65 billion in the same period last year. This was mainly driven by domestic sales which grew by 7.7%, as the core F&B business recorded a 6.7% increase while the OOH business continued its gradual but firm recovery against low sales registered in the same period last year due to the impact of the MCO.

The first half results confirm the resiliency of our model based on driving sustainable growth year in and year out, coupled with efficiencies that help us to invest behind brands and innovation bringing to market consumer value propositions. We will continue to work hard every day to meet the expectations of the consumers with great tasting, high quality and nutritious products.

The Group registered a higher Profit Before Tax of RM397.4 million for the first half of the year, up by 2.8% from the same period last year. This was primarily due to the higher sales achieved, offset slightly by increased commodity prices and marketing spend, as well as the significant COVID-19 related expenses, which amounted to close to RM50 million. The Group recorded a higher Profit After Tax of RM309.7 million, which was also supported by lower taxes due to the Reinvestment Allowance tax incentive for the Group's new Plant-Based Meal Solutions manufacturing facility.

Reflecting the Group's commitment to delivering value to shareholders, the Board declared an interim dividend of RM0.70 per share for the financial year ending 31 December 2021, the same level as the first interim dividend of 2020.

3 Variation of results against previous quarter (Quarter 2, 2021 vs. Quarter 1, 2021)

For the second quarter ended 30 June 2021, the Group registered a turnover of RM1.38 billion, slightly lower compared to the first quarter of 2021, mainly due to higher sales during the Chinese New Year period.

Profit Before Tax was lower at RM177.0 million primarily due to the lower sales as well as a slight impact from higher commodity prices.

4 Current year prospects

The progress in the national vaccination program has been impressive and it does show the best of the "Malaysia Boleh!" spirit that inspires all of us in Nestlé Malaysia to do our best every day. With the light at the end of the tunnel now in sight, we hope for all Malaysians suffering from this pandemic to protect their lives and recover their livelihoods. Throughout H1 2021 we have continued to provide relief to communities contributing some RM7.5 million to food banks and support to NGOs. We are also doing our part to encourage all Malaysians to get vaccinated, through our "Join the fight. Stop COVID-19" call to arms which includes rewarding vaccinated Malaysians with 25,000 vouchers of RM20 each.

Counting on a progressive normalization of economic activities, the main challenge for the balance of the year will come from the impact of rising food commodity costs that we have mitigated through H1 through our hedging policies. This impact will become more noticeable in the months ahead. That being said, we remain confident to deliver good sales growth and resilient bottom line performance in 2021.

Building on our good momentum, we remain focused on driving our positive trajectory in the second half of the year as we strive to deliver sustainable growth for 2021, while supporting Malaysia on the road to recovery.

5 Profit forecast

We do not issue any profit forecast.

6 Tax expense

	3 months ended 30.06.2021 RM'000	6 months ended 30.06.2021 RM'000
Current tax		
Malaysian - current period	43,366	89,358
- prior year	-	(1,560)
Total current tax expense	43,366	87,798
Deferred tax		
Origination and reversal of temporary differences	(875)	(7,464)
Over provision in prior year	-	7,372
Total deferred tax expense	(875)	(92)
Total income tax expense	42,491	87,706

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 30.06.2021 RM'000
130,000
14,964
144,964
100,000
100,000

11 **Derivatives**

Summary of outstanding derivative assets / (liabilities) as at 30.06.2021 :

Type of derivatives	Notional Value RM'000	Fair Value RM'000	Difference RM'000	Ageing
Forward exchange contracts	701,685	703,301	1,616	Less than 1 year
Commodity futures	4,424	6,096	1,672	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 ("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. The Court of Appeal has since on 20 January 2021 fixed the hearing date for the appeal to take place on 22 September 2021. Parties are to complete the filing of written submissions by 7 September before the appeal hearing.

Despite the Record of Appeal filed by Mad Labs and CKL, the pre-trial directions given by the IP Court remain valid and parties are required to complete the filing of trial documents as directed. Due to the Movement Control Order issued by the Government, the trial that was scheduled to commence on 1 June 2021 has been vacated and moved to 10 June 2021 to allow time for the representing counsels to obtain the necessary approvals from the relevant authorities to provide their legal services and commence trial.

Trial finally commenced on 10 June 2021 and the Court has since fixed 24 August 2021 for trial continuation.

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

13 Dividend

The Board of Directors has declared an interim dividend of 70.00 sen per share (2020: 70.00 sen per share) in respect of financial year ending 31 December 2021 which will be paid on 7 October 2021 to shareholders whose names appear on the Record of Depositors on 15 September 2021. Under current rules, single-tier dividends are not taxable in the hand of shareholders.

A Depositor shall qualify for entitlement only in respect of:

- a. shares transferred into the Depositor's Securities Account before 5.00 p.m. on 15 September 2021 in respect of ordinary transfers.
- b. 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 Jun		6 months ended 30 Jun	
	2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Profit for the period is arrived at after charging:				
Depreciation of property, plant and equipment	37,175	34,417	75,303	69,609
Depreciation of right-of-use assets	9,313	8,462	18,404	16,888
Amortisation of intangible assets	289	324	579	716
Finance cost of lease liabilities	1,743	1,818	3,550	3,708
Impairment loss on property, plant and equipment	-	2,610	-	2,645
Property, plant and equipment written off	143	755	243	415
Net loss on derivatives	-	-	48	-
Impairment loss on trade receivables	-	2,610	-	2,645
Provision & write off of inventories	2,360	5,866	6	2,734
Net foreign exchange loss	-	-	2,830	-
and after crediting:				
Gain on disposal of property, plant and equipment	42	22	64	137
Net gain on derivatives	20	57	-	86
Reversal of impairment loss on trade receivables	74	-	440	-
Net foreign exchange gain	-	6,600	-	2,424

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 30.06.2021					
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	1,672	-	-	1,672	1,672
Forward exchange contracts	-	6,233	-	6,233	6,233
Financial liabilities					
Forward exchange contracts	-	(4,617)	-	(4,617)	(4,617)

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	-	-	17,296	17,296	17,296

As at 31.12.2020					
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	148	-	-	148	148
Forward exchange contracts	-	8,383	-	8,383	8,383
Financial liabilities					
Forward exchange contracts	-	(13,155)	-	(13,155)	(13,155)
Commodity futures	(67)	-	-	(67)	(67)

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	-	-	21,561	21,561	21,561

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 (2020: 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 RM309.7 million (RM291.8 million in June 2020) and the number of ordinary shares outstanding of 234.5 million (234.5 million in June 2020).

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 : 24 August, 2021