



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 2022 as follows:

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

	3 months ended 30 June			6 months ended 30 June		
	2022 RM'000	2021 RM'000	%	2022 RM'000	2021 RM'000	%
Revenue - Sale of goods	1,638,978	1,379,814	18.8%	3,332,729	2,828,587	17.8%
Cost of sales	(1,121,211)	(899,344)		(2,239,200)	(1,829,263)	
Gross profit	517,767	480,470	7.8%	1,093,529	999,324	9.4%
Operating expenses	(269,916)	(295,181)		(547,909)	(586,054)	
Operating profit	247,851	185,289	33.8%	545,620	413,270	32.0%
Finance costs	(10,310)	(8,480)		(20,358)	(17,228)	
Finance income	94	62		644	713	
Share of profit of an equity-accounted associate, net of tax	310	145		686	639	
Profit before tax	237,945	177,016	34.4%	526,592	397,394	32.5%
Income tax expense	(68,291)	(42,491)		(151,758)	(87,706)	
Profit after tax	169,654	134,525	26.1%	374,834	309,688	21.0%
Minority interests	-	-		-	-	
Profit after tax and minority interest	169,654	134,525	26.1%	374,834	309,688	21.0%
Profit for the period	169,654	134,525	26.1%	374,834	309,688	21.0%
Other comprehensive (expense)/income, net of tax						
Item that may be reclassified to profit or loss in subsequent periods						
Cash flow hedge	(4,843)	(2,360)		(3,484)	5,855	
Total other comprehensive (expense)/income for the period, net of tax	(4,843)	(2,360)		(3,484)	5,855	
Total comprehensive income for the period	164,811	132,165	24.7%	371,350	315,543	17.7%
Basic earnings per share (sen)	72.35	57.37		159.84	132.06	
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)	3.05			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 JUNE 2022

	As at 30.06.2022 RM'000	As at 31.12.2021 RM'000
Assets		
Property, plant and equipment	1,536,209	1,534,268
Right-of-use assets	193,097	208,232
Intangible assets	62,762	63,342
Investment in an associate	6,155	5,949
Deferred tax assets	25,777	23,874
Trade and other receivables	8,664	9,228
Total non-current assets	1,832,664	1,844,893
Trade and other receivables	471,845	377,050
Inventories	1,015,098	744,987
Current tax assets	112	11,003
Cash and bank balances	19,676	6,898
Total current assets	1,506,731	1,139,938
Total assets	3,339,395	2,984,831
Equity		
Share capital	267,500	267,500
Hedging reserve	(4,228)	(744)
Retained earnings	451,585	315,941
Total equity attributable to owners of the parent	714,857	582,697
Liabilities		
Loans and borrowings	300,000	100,000
Lease liabilities	129,577	141,351
Employee benefits	87,702	89,859
Deferred tax liabilities	163,369	142,496
Total non-current liabilities	680,648	473,706
Trade and other payables	1,711,172	1,626,072
Loans and borrowings	135,000	245,693
Lease liabilities	24,570	26,962
Current tax liabilities	73,148	29,701
Total current liabilities	1,943,890	1,928,428
Total liabilities	2,624,538	2,402,134
Total equity and liabilities	3,339,395	2,984,831
Net assets per share attributable to owners of the parent (RM)	3.05	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 JUNE 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	-	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 parent</u>				
- Interim dividend for the year 2020	-	-	(215,740)	(215,740)
At 30 June 2021	267,500	2,321	387,118	656,939
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

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 JUNE 2022**

	6 months ended 30.06.2022 RM'000	6 months ended 30.06.2021 RM'000
Cash flows from operating activities		
Profit before tax	526,592	397,394
<i>Adjustments for:</i>		
Amortisation and depreciation	98,172	94,286
Impairment of property, plant and equipment	392	-
Net finance costs	19,714	16,515
Gain on disposal of property, plant and equipment	(354)	(64)
<i>Add/ Less:</i>		
Movement in working capital	(288,364)	9,527
Income tax paid	(77,350)	(74,523)
Others	2,600	2,051
Net cash from operating activities	281,402	445,186
Cash flows from investing activities		
Acquisition of property, plant and equipment	(85,965)	(84,848)
Proceeds from disposal of property, plant and equipment	922	523
Others	1,124	1,103
Net cash used in investing activities	(83,919)	(83,222)
Cash flows from financing activities		
Finance costs paid	(20,358)	(17,228)
Proceeds from/(Repayment of) borrowings	100,000	(90,000)
Dividend payment	(239,190)	(215,740)
Payment of lease liabilities	(14,464)	(15,265)
Net cash used in financing activities	(174,012)	(338,233)
Net increase in cash and cash equivalents	23,471	23,731
Cash and cash equivalents at 1 January	(3,795)	(28,342)
Cash and cash equivalents at 30 June	19,676	(4,611)

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 June 2022		6 months ended 30 June 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)	1,352	45	1,534	45
Plant and machinery, tools, furniture and equipment (include Asset Under Construction)	52,954	824	77,674	840
Motor vehicles	4,001	20	4,001	556
Information systems	2,204	23	2,756	32
	60,511	912	85,965	1,473

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 2022		6 months ended 30 June 2022	
	Addition & modification RM'000	Derecognition RM'000	Addition & modification RM'000	Derecognition RM'000
Building	298	-	298	-

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 30.06.2022 RM'000	6 months ended 30.06.2022 RM'000
Interim dividend for the financial year ended 31 December 2021 3rd interim: 102.00 sen per share (single-tier)	239,190	239,190
Total	239,190	239,190

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.

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

6 months ended 30 June 2021			
	Food & Beverages RM'000	Others RM'000	Total RM'000
Segment revenue and results			
Revenue	2,359,864	468,723	2,828,587
Operating Profit	379,999	33,988	413,987

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:

	6 months ended 30.06.2022 RM'000	6 months ended 30.06.2021 RM'000
Total operating profit for reported segments	546,220	413,987
Other unallocated expense	(600)	(717)
Consolidated operating profit	545,620	413,270

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 30.06.2022 RM'000	6 months ended 30.06.2022 RM'000
Sales of goods	329,066	648,875
Rendering of services	9,221	17,926
Purchases of goods and services	346,473	751,774
Purchases of plant and equipment	9	1,804
Royalty expenses	78,847	162,350
IT shared service expenses	12,175	24,607
Finance costs	2,064	2,996

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, 2022 vs Quarter 2, 2021)

For the second quarter ended 30 June 2022, total turnover for the Group reached RM1.64 billion, an 18.8% increase from RM1.38 billion in the same quarter last year. This was driven by both domestic and export sales which increased by 12.5% and 48.1% respectively. Out-of-Home (OOH) channels are recovering further post lockdowns and travel restrictions.

With travel restrictions removed, we continued to see consumption acceleration, well supported by our demand generation activities and excellence in operational execution. This enabled us to fulfil our promise to deliver Good Food, Good Life through our wide range of products, strengthening communication and deepening our engagement with Malaysian consumers via relevant digital and on-the-ground activities.

Committed to delivering products that address consumers' evolving preferences, the Group launched a number of new offerings during the quarter. Catering for the growing plant-based segment, the new launches included HARVEST GOURMET Plant-Based Nuggets as well as the first-ever dairy-free coffee capsules in Malaysia; NESCAFÉ DOLCE GUSTO Almond Flat White and Coconut Flat White. Other innovations included NESTLÉ OMEGA PLUS Dark Chocolate Milk Powder, NESCAFÉ GOLD Cappuccino Ice Cream and the introduction of a premium chocolate block range under NESTLÉ LES RECETTES DE L'ATELIER Chocolate.

Profit Before Tax (PBT) and Profit After Tax (PAT) increased to RM237.9 million and RM169.7 million respectively in Q2 2022. This was mainly due to the stronger sales and lower COVID-19 related expenses compared with the same quarter last year. This improved performance was achieved despite the impact of increased commodity prices and unfavourable exchange rates, as well as the impact of the Cukai Makmur (Prosperity Tax) on PAT.

While driving financial performance, we ramped up further our sustainability efforts in the quarter under review. We made further tangible progress to reduce plastic waste; we expanded our use of environmentally-friendly packaging, becoming the first food and beverage company in Malaysia to implement high-quality recycled plastic resin (rPET) for our Ready-to-Drink products in plastic bottles format. In addition, we eliminated single-use plastic shrink wrap for our MILO UHT 125ml products, replacing it with 100% sustainably sourced recyclable paper, and are working to extend this innovation to the rest of our UHT range.

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

For the first half ended 30 June 2022, the Group recorded higher turnover of RM3.33 billion, up by 17.8% from RM2.83 billion in the same period last year. This was contributed by both domestic and export sales, growing at 13.7% and 36.1% respectively, supported by strong growth in both the core F&B and OOH businesses which continued to see a recovery as movement restrictions were lifted.

Our improved results in the first half of 2022 reflect the positive consumer offtake on the back of robust demand and effective marketing support, as well as successful product innovations and portfolio renovation.

The Group registered a higher PBT and PAT of RM526.6 million and RM374.8 million respectively for the first half of the year, up by 32.5% and 21.0% respectively. This was achieved on the back of higher sales and reduced COVID-19 related expenses, mitigating higher commodity prices, unfavourable exchange rates and the impact of Cukai Makmur (Prosperity Tax) on PAT.

As a result of the Group's performance and its commitment to enhancing value for shareholders, the Board declared an interim dividend of RM0.70 per share for the financial year ending 31 December 2022, consistent with the first interim dividend of 2021.

3 Variation of results against previous quarter (Quarter 2, 2022 vs. Quarter 1, 2022)

For the second quarter ended 30 June 2022, the Group registered a turnover of RM1.64 billion, 3.2% lower compared to the first quarter of 2022, mainly due to the higher sales recorded in Q1 2022 during the Chinese New Year period.

Profit Before Tax was lower at RM237.9 million, mainly due to the lower sales and higher commodity prices.

4 Current year prospects

Headwinds will increase in the second half of the year, with ongoing disruptions in the global supply chains and sharp increases in prices of most globally traded commodities. Adding to this, rising inflation and the prolonged war in Ukraine will continue to put pressure on prices and may impact the availability of key food commodities. MYR depreciation vs the USD further compounds this challenge.

Against this challenging backdrop, we remain focused on driving sustainable growth in the remainder of the year. Despite increased pressure on our bottom line, we will continue to cushion the impact through prudent cost optimisation and tight management of internal efficiencies.

Our sustainable growth strategy is underpinned by our dedicated ESG agenda which we continue to accelerate. This includes expanding our voluntary Extended Producer Responsibility (EPR) initiatives, such as our Collection and Recycling Program. We are on track to achieve our target of collecting 6,000 tonnes of post-consumer packaging by end-2022, of which 3,000 tonnes will be plastics. We will also continue to make a positive socio-economic impact by supporting communities in need as part of our commitment to contribute to a brighter future for Malaysia.

5 Profit forecast

We do not issue any profit forecast.

6 Income tax expense

3 months ended 30.06.2022 RM'000	6 months ended 30.06.2022 RM'000
51,359	131,688
51,359	131,688
16,669	19,783
263	287
16,932	20,070
68,291	151,758

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

The Group's effective tax rate for the current quarter and year-to-date June 2022 were 28.7% and 28.8% 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

Total short term loans

Long term - Unsecured loans

Loan from a related company

Total long term loans

As at 30.06.2022 RM'000
135,000
135,000
300,000
300,000

The Group has obtained a long-term unsecured loan from Nestlé Treasury Centre-Asia Pacific of additional RM100 million in June 2022 and repayable in December 2023.

11 Derivatives

(a) Summary of outstanding derivative assets / (liabilities) as at 30.06.2022 :

Type of derivatives	Notional Value RM'000	Fair Value RM'000	Difference RM'000	Ageing
Forward exchange contracts	1,078,302	1,076,393	(1,909)	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. The latest tranche of trial dates has been fixed to take place on 8 and 9 August 2022.

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 6 October 2022 to shareholders whose names appear on the Record of Depositors on 9 September 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 9 September 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 June		6 months ended 30 June	
	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	41,936	37,175	82,159	75,303
Depreciation of right-of-use assets	7,726	9,313	15,433	18,404
Amortisation of intangible assets	290	289	580	579
Finance cost of lease liabilities	1,463	1,743	2,998	3,550
Impairment loss on property, plant and equipment	392	-	392	-
Property, plant and equipment written off	889	143	905	243
Net loss on termination of leased assets	536	-	552	-
Loss on disposal of property, plant and equipment	12	-	-	-
Net loss on derivatives	33	-	26	48
Provision and write off of inventories	-	2,360	-	6
Net foreign exchange loss	14,910	-	16,993	2,830
and after crediting:				
Gain on disposal of property, plant and equipment	-	42	354	64
Net gain on derivatives	-	20	-	-
Reversal of impairment loss on trade receivables	105	74	241	440
Reversal of provision of inventories	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 RM374.8 million (RM309.7 million in June 2021) and the number of ordinary shares outstanding of 234.5 million (234.5 million in June 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 : 28 July, 2022