Nestlé
Good Food, Good Life

INTERIM REPORT

NESTLÉ (MALAYSIA) BERHAD

(110925-W)

(Incorporated in Malaysia)

The Directors are pleased to present the Interim Report for the period ended 31 March 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 MARCH 2018

	3 months ended 31 March			3 months ended 31 March		
	2018 RM'000	2017 Restated RM'000	%	2018 RM'000	2017 Restated RM'000	%
Revenue - Sales of goods	**1,429,670**	**1,371,882**	**4.2%**	**1,429,670**	**1,371,882**	**4.2%**
Cost of sales	(870,362)	(824,692)		(870,362)	(824,692)	
Gross profit	**559,308**	**547,190**	**2.2%**	**559,308**	**547,190**	**2.2%**
Operating expenses	(255,860)	(247,977)		(255,860)	(247,977)	
Operating profit	**303,448**	**299,213**	**1.4%**	**303,448**	**299,213**	**1.4%**
Finance costs	(9,696)	(8,801)		(9,696)	(8,801)	
Finance income	495	304		495	304	
Share of post tax profit of an associate	579	280		579	280	
Profit before tax	**294,826**	**290,996**	**1.3%**	**294,826**	**290,996**	**1.3%**
Tax expense	(63,610)	(60,309)		(63,610)	(60,309)	
Profit after tax	**231,216**	**230,687**	**0.2%**	**231,216**	**230,687**	**0.2%**
Minority interests	-	-		-	-	
Profit after tax and minority interest	**231,216**	**230,687**	**0.2%**	**231,216**	**230,687**	**0.2%**
Profit for the period	**231,216**	**230,687**	**0.2%**	**231,216**	**230,687**	**0.2%**
Other comprehensive income/(expense), net of tax						
Item that is or may be reclassified subsequently to profit or loss						
Cash flow hedge	5,712	(15,287)		5,712	(15,287)	
Item that will not be reclassified subsequently to profit or loss						
Total other comprehensive income/(expense) for the period, net of tax	5,712	(15,287)		5,712	(15,287)	
Total comprehensive income for the period	236,928	215,400	10.0%	236,928	215,400	10.0%
Basic earnings per share (sen)	98.60	98.37		98.60	98.37	
Proposed/Declared dividend per share-net (sen)	-	-		-	-	

	AS AT END OF CURRENT QUARTER	AS AT PRECEDING FINANCIAL YEAR END (RESTATED)
Net assets per share attributable to equity holders (RM)	3.68	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 2017.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018

	As at 31.03.2018 RM'000	As at 31.12.2017 Restated RM'000
Assets		
Property, plant and equipment	1,349,278	1,373,651
Right of use assets	50,497	56,492
Intangible assets	61,884	61,987
Investment in an associate	5,288	4,709
Deferred tax assets	16,913	19,244
Trade and other receivables	24,172	24,283
Total non-current assets	1,508,032	1,540,366
Trade and other receivables	726,405	571,696
Inventories	447,626	467,316
Current tax assets	11,469	12,333
Cash and cash equivalents	85,429	12,615
Total current assets	1,270,929	1,063,960
Total assets	**2,778,961**	**2,604,326**
Equity		
Share capital	267,500	267,500
Hedging reserve	(3,460)	(9,172)
Retained earnings	598,351	367,135
Total equity attributable to owners of the Company	862,391	625,463
Liabilities		
Loans and borrowings	84,264	84,264
Lease obligation	16,632	17,836
Employee benefits	91,039	89,749
Deferred tax liabilities	124,812	120,987
Total non-current liabilities	316,747	312,836
Trade and other payables	1,270,002	1,296,619
Loans and borrowings	263,126	305,631
Lease obligation	37,527	43,969
Current tax liabilities	29,168	19,808
Total current liabilities	1,599,823	1,666,027
Total liabilities	1,916,570	1,978,863
Total equity and liabilities	**2,778,961**	**2,604,326**
Net assets per share attributable to shareholders (RM)	3.68	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 2017.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR PERIOD ENDED 31 MARCH 2018

	Non Distributable		Distributable	
	Share capital RM'000	*Hedging reserve* RM'000	*Retained profits* RM'000	Total Equity RM'000
At 1 January 2017, as previously reported	267,500	10,896	368,825	647,221
Adjustments from adoption of MFRS 16	-	-	(3,901)	(3,901)
Restated balance as at 1 January 2017	267,500	10,896	364,924	643,320
Cash flow hedge	-	(15,287)	-	(15,287)
Profit for the period	-	-	230,687	230,687
Total comprehensive (expense)/income for the period	-	(15,287)	230,687	215,400
Restated balance as at 31 March 2017	**267,500**	**(4,391)**	**595,611**	**858,720**
At 31 December 2017, as previously reported	267,500	(9,172)	381,600	639,928
Adjustments from adoption of MFRS 16	-	-	(5,313)	(5,313)
Restated balance as at 31 December 2017	267,500	(9,172)	376,287	634,615
Opening balance adjustments from adoption of MFRS 9	-	-	(9,152)	(9,152)
Restated balance as at 1 January 2018	267,500	(9,172)	367,135	625,463
Cash flow hedge	-	5,712	-	5,712
Profit for the period	-	-	231,216	231,216
Total comprehensive income for the period	-	5,712	231,216	236,928
At 31 March 2018	**267,500**	**(3,460)**	**598,351**	**862,391**

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2017.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR PERIOD ENDED 31 MARCH 2018

	3 months ended 31.03.2018 RM'000	3 months ended 31.03.2017 Restated RM'000
Cash flows from operating activities		
Profit before tax	294,826	290,996
Adjustments for:		
Amortisation and depreciation	39,481	40,360
Net finance costs	9,201	8,497
Less:		
Movement in working capital	(168,007)	(226,328)
Income tax paid	(49,034)	(26,305)
Others	2,364	11,329
Net cash from operating activities	**128,832**	**98,549**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(9,431)	(9,014)
Others	680	409
Net cash used in investing activities	**(8,751)**	**(8,605)**
Cash flows from financing activities		
Finance costs paid	(9,696)	(8,378)
Proceed from borrowings	-	104,199
Payment of lease obligation	(7,646)	(8,103)
Net cash (used in)/generated from financing activities	**(17,342)**	**87,718**
Net increase in cash and cash equivalents	**102,739**	**177,662**
Cash and cash equivalents at 1 January	**(17,310)**	**(155,757)**
Cash and cash equivalents at 31 March	**85,429**	**21,905**

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2017.

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 as at and for the year ended 31 December 2017.

The accounting policies applied in this interim financial report are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017, except as described below.
The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2018.
The Group has adopted MFRS 15 *Revenue from Contracts with Customers* (see A), MFRS 9 *Financial Instruments* (see B) and MFRS 16 *Leases* (see C) from 1 January 2018. Other new standards with effective date from 1 January 2018 do not have material effect on the Group's financial statements. The changes arising from these adoptions are as described below:

A. Adoption of MFRS 15 Revenue

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts* , MFRS 118, *Revenue* , IC Interpretation 13, *Customer Loyalty Programmes* , IC Interpretation 15, *Agreements for Construction of Real Estate* , IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services* . MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligation. The standard specifies that the revenue is to be recognised when control over the goods or services is transferred to customer, moving from the transfer of risks and rewards.
The Group has concluded that the initial application of MFRS 15 does not have any material financial impacts to the current period and prior period financial statements of the Group.

B. Adoption of MFRS 9 Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.
In order to measure the consequences of this new standard, the Group has engaged a review of the business model corresponding to the different portfolios of financial assets and of the characteristics of these financial assets.
In respect to hedge accounting, the Group reviewed the definition of the hedging relationship in line with the risk management activities and policies, with a specific attention to the identification of the components in the pricing of the commodities. The Group has assessed that there is no significant impact on the initial application of MFRS 9 on the derivatives.

In respect of impairment of financial assets, MFRS 9 replaces the "incurred loss" model in MFRS 139 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt instruments measured at fair value through other comprehensive income, but not to investments in equity instruments.
On the date of initial application, MFRS 9 did not affect the classification and measurement assets and financial liabilities, except that has increased by RM9.2 million as at 1 January 2018 as a result of applying the ECL model on receivables, deposits and contract assets. As permitted by the transitional provisions of MFRS 9, the Group has elected not to restate comparative figures and thus these adjustments were recognised in the opening retained earnings of the current period.

C. Adoption of MFRS 16 Leases

The Group has elected early adoption of MFRS 16 *Leases* with effective of 1 Janaury 2018. MFRS 16 replaces the guidance in MFRS 117, *Leases* , IC Interpretation 4, *Determining whether an Arrangement contains a Lease* , IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* .
MFRS 16 introduces a single on-balance-sheet lease accounting model for lessees and the main changes are explained below:

1. A lessee recognizes:
   a. a right-of-use asset representing its right to use the underlying asset; and
   b. a lease liability representing its obligation to make lease payments.
2. Operating leases expenses are now replaced by:
   a. Depreciation of right-of-use asset.
   b. Interest expense on lease liability.

In accordance with the transitional provisions in MFRS 16, the Group has elected to adopt the retrospective approach, requiring the restatement of the comparative period presented in the financial statements. Refer to Note 1(D) for the adjustments made to the comparative figures.

D. Restatement of comparative figures

(i) Reconciliation of profit or loss and comprehensive income

	As at 31.3.2017		
	Previously reported	**Effect of MFRS 16**	**Restated**
Revenue - Sales of goods	**1,371,882**	**-**	**1,371,882**
Cost of sales	(824,692)	-	(824,692)
Gross profit	**547,190**	**-**	**547,190**
Operating expenses	(248,656)	679	(247,977)
Operating profit	**298,534**	**679**	**299,213**
Finance costs	(8,378)	(423)	(8,801)
Finance income	304	-	304
Share of post tax profit of an associate	280	-	280
Profit before tax	**290,740**	**256**	**290,996**
Tax expense	(60,309)	-	(60,309)
Profit after tax	**230,431**	**256**	**230,687**
Profit after tax and minority interest	**230,431**	**256**	**230,687**
Profit for the period	**230,431**	**256**	**230,687**
Total comprehensive income for the period	**215,144**	**256**	**215,400**
Basic earnings per share (sen)	**98.26**		**98.37**

(ii) Reconciliation of financial position and equity

	As at 31.12.2017		
	Previously reported	**Effect of MFRS 16**	**Restated**
Assets			
Right of use assets	-	56,492	56,492
Other non-current assets	1,483,874	-	1,483,874
Total non-current assets	1,483,874	56,492	1,540,366
Total current assets	1,063,960	-	1,063,960
Total assets	**2,547,834**	**56,492**	**2,604,326**
Equity			
Share capital	267,500	-	267,500
Hedging reserve	(9,172)	-	(9,172)
Retained earnings	372,448	(5,313)	367,135
Total equity attributable to owners of the Company	630,776	(5,313)	625,463
Liabilities			
Lease obligation	-	17,836	17,836
Other non-current liabilities	295,000	-	295,000
Total non-current liabilities	295,000	17,836	312,836
Lease obligation	-	43,969	43,969
Other current liabilities	1,622,058	-	1,622,058
Total current liabilities	1,622,058	43,969	1,666,027
Total liabilities	**2,547,834**	**56,492**	**2,604,326**

(iii) Reconciliation of cash flows

	3 months ended 31.3.2017		
	Previously reported	**Effect of MFRS 16**	**Restated**
Cash flows from operating activities			
Profit before tax	290,740	256	290,996
Adjustments for:-			
Amortisation, depreciation and impairment	32,936	7,424	40,360
Net finance costs	8,074	423	8,497
Movement in working capital	(226,328)	-	(226,328)
Income tax paid	(26,305)	-	(26,305)
Others	11,329	-	11,329
Net cash from operating activities	**90,446**	**8,103**	**98,549**
Cash flows from investing			
Acquisition of Property, plant and equipment	(9,014)	-	(9,014)
Others	409	-	409
Net cash used in investing activities	**(8,605)**	**-**	**(8,605)**
Cash flows from financing activities			
Finance cost paid	(8,378)	-	(8,378)
Borrowings	104,199	-	104,199
Payment of lease obligation	-	(8,103)	(8,103)
Net cash (used in)/generated from financing activities	**95,821**	**-**	**87,718**
Net increase in cash and cash equivalents	**177,662**	**-**	**177,662**
Cash and cash equivalents at 1 January	**(155,757)**	**-**	**(155,757)**
Cash and cash equivalents at 31 March	**21,905**	**-**	**21,905**

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 31 Mar 2018	
	Assets acquired RM'000	Assets disposed/ write-off RM'000
Building (improvements and additions)	2,834	4
Plant and machinery	2,665	195
Tools and furniture	3,143	92
Motor vehicles	559	-
Information systems	230	129
	9,431	420

b. Intangible Assets

There was no capitalisation of intangible assets in this quarter.

c. Right of use

There was no capitalisation of new leases in this quarter.

5 Changes in estimates

There were no significant changes in estimates for prior periods that have materially affected the results of this quarter.

6 Debts and equity security

There is no issuance of debts and equity security in this quarter.

7 Dividends paid

There was no dividend payment in this quarter.

8 Operating segment

MFRS 8 requires separate reporting of segmental information for operating segments. Operating segments reflect the Group's management structure and the way financial information is regularly reviewed by the Group's chief operating decision maker, which is defined as the Executive Board.

The Group is focused in two areas of activity, Food & Beverages and Others which include Nutrition, Nestlé Professional, Nestle Health Science and Nespresso.

	3 months ended 31 March 2018		
	Food & Beverages RM'000	Others RM'000	Total RM'000
Segment revenue and results			
Revenue	1,144,304	285,366	1,429,670
Operating Profit	248,651	54,527	303,178

	3 months ended 31 March 2017		
	Food & Beverages RM'000	Others RM'000	Total RM'000
Segment revenue and results			
Revenue	1,092,667	279,215	1,371,882
Operating Profit	244,795	53,574	298,369

The comments on page 6 apply to both segments Food & Beverages (80% of total sales) and Others (20% of total sales).

Reconciliations of reportable segment operating profit:	3 months ended 31.03.2018 RM'000	3 months ended 31.03.2017 Restated RM'000
Total operating profit for reported segments	303,178	298,369
Other unallocated expenses	270	844
Consolidated operating profit	303,448	299,213

9 Valuation of property, plant and equipment

There were no changes or amendments to the valuation of property, plant and equipment from the previous annual financial statements.

10 Events subsequent to balance sheet date

There were no subsequent events to the balance sheet date.

11 Changes in the composition of the Group

There were no changes in the composition of the Group in this quarter.

12 Changes in contingent liabilities

As of the date of this report, there were no contingent liabilities to the Group.

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 31.03.2018 RM'000
IT shared service	8,450
Net finance costs	1,930
Purchases of goods and services	165,512
Sales of finished goods	216,294
Royalties	72,484

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS

1 Review of performance (Quarter 1, 2018 vs Quarter 1, 2017)

For the first quarter ended 31 March 2018, the Group increased its revenue by 4.2% from RM1.37 billion to RM1.43 billion (+RM58 million) compared to Q1 2017. This commendable performance was driven by by higher domestic sales (+4.4%) as well as higher Export sales (+3.4%). Relevant product innovations with the right marketing and promotional support helped the Group to achieve high sales during Chinese New Year.

The Group was able to increase the operating profit by RM4 million to RM303 million and the profit before tax by RM4 million to RM295 million. A satisfactory bottom line performance considering the Q1 2017 was already on a high base. The impact of slightly higher commodity prices as well as from increased marketing investments for the Chinese New Year sales was compensated by a strong revenue growth.

2 Variation of results against previous quarter (Quarter 1, 2018 vs. Quarter 4, 2017)

In the first quarter, the Group registered a turnover of RM1.43 billion, 11.5% higher than the fourth quarter of 2017. This double-digit growth is driven by our impactful new products as well as continued marketing- and trade-support. It is partially also explained by the seasonality of our Business: the strong sales around Chinese New Year contribute to a high Q1 turnover.

The Group increased the Operating Profit by RM128 million (+73.4%) to RM 303 million and the Profit before tax by RM129 million (+77.9%) to RM 295 million. Main reasons for this positive profit development are favorable trends for commodity prices and the Malaysian currency on the one side as well as the normal phasing of the marketing investments (high in Q4) on the other side.

3 Current year prospects

At the backdrop of a more encouraging year for Malaysian economy, we will continue with our "Fuel the Growth" strategy: Striving for efficiency increases all over the supply chain and reinvesting the realized improvements into the sustainable growth of the Company by innovating / renovating our portfolio and intensifying our Trade-and Consumer promotions.

4 Profit forecast

We do not issue any profit forecast.

5 Tax expense

	3 months ended 31.03.2018 RM'000
Current tax	
Malaysian - current year	59,258
Total current tax expense	59,258
Deferred tax	
Origination and reversal of temporary differences	4,352
Total deferred tax expense	4,352
Total income tax expense	63,610

6 Unquoted investments

Not applicable in this quarter.

7 Quoted investments

Not applicable to the Group.

8 Status of corporate proposals

There were no corporate proposals in this quarter.

9 Loans and borrowings

Group Borrowings and Debt Securities are:

	As at 31.03.2018 RM'000
Short term - Unsecured loans	
Loan from a related company	263,126
Total short term loans	**263,126**
Long term - Unsecured loans	
Loan from a related company	84,264
Total long term loans	**84,264**

The Group has short-term unsecured loan from Nestlé Treasury Centre - Middle East & Africa for the amount of USD 68 million (MYR 263 million). This loan is for 6-months tenor with roll-over option. Long-term unsecured loan of MYR 84 million is also from Nestlé Treasury Centre - Middle East & Africa. The company also obtained bank overdraft from local bank in Malaysia.

10 Derivatives

Summary of outstanding derivative assets / (liabilities) as at 31.03.2018 :

Type of derivatives	Notional Value RM'000	Fair Value RM'000	Difference RM'000	Ageing
Forward exchange contracts	1,184,731	1,167,359	(17,372)	Less than 1 year
Commodity futures	89,464	96,837	7,373	Less than 1 year

11 Material litigation

As of the date of this report, there were no material litigations against the Group.

12 Dividend

No dividend is proposed in this quarter.

13 Profit for the period

	3 months ended 31 March	
	2018 RM'000	2017 Restated RM'000
Profit for the period is arrived at after charging:		
Amortisation of right of use	5,996	7,424
Amortisation of intangible assets	103	103
Depreciation of property, plant and equipment	33,382	32,833
Net finance cost	329	423
Loss on disposal of property, plant and equipment	106	-
Provision & write off of receivables	2,000	-
Property, plant and equipment written off	129	20
and after crediting:		
Gain on disposal of property, plant and equipment	-	619
Net foreign exchange gain	7,194	14,592
Net gain on derivatives	953	650
Reversal of provision of inventories	-	1,982

14 Financial instruments disclosure

Fair value information

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position:

	As at 31.03.2018				
	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	12,135	-	-	12,135	12,135
Forward exchange contracts	-	8,353	-	8,353	8,353
Financial liabilities					
Forward exchange contracts	-	(25,726)	-	(25,726)	(25,726)
Commodity futures	(4,762)	-	-	(4,762)	(4,762)
	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	-	-	37,130	37,130	37,130
Financial liabilities					
Loan from a related company	-	-	(347,390)	(347,390)	(347,390)

	As at 31.03.2017				
	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	2,048	-	-	2,048	2,048
Forward exchange contracts	-	3,084	-	3,084	3,084
Financial liabilities					
Forward exchange contracts	-	(4,767)	-	(4,767)	(4,767)
Commodity futures	(7,877)	-	-	(7,877)	(7,877)
	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	-	-	37,203	37,203	37,203
Financial liabilities					
Loan from a related company	-	-	(84,264)	(84,264)	(84,264)

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 (2016: 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.

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 RM231.2 million (RM230.4 million in March 2017) and the number of ordinary shares outstanding of 234.5 million (234.5 million in March 2017).

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 : April 24, 2018