



Nestlé

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

The Directors are pleased to present the Interim Report for the period ended 30 June 2014 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
 FOR THE PERIOD ENDED 30 JUNE 2014**

| | 3 months ended 30 June | | 6 months ended 30 June | |
|---|-------------------------------------|----------------|---|----------------|
| | 2014 RM'000 | 2013 RM'000 | 2014 RM'000 | 2013 RM'000 |
| Revenue - Sales of goods | 1,270,164 | 1,214,222 | 2,542,876 | 2,441,573 |
| Cost of sales | (845,851) | (781,253) | (1,645,074) | (1,560,790) |
| Gross profit | 424,313 | 432,969 | 897,802 | 880,783 |
| Operating expenses | (263,938) | (255,813) | (494,153) | (456,529) |
| Operating profit | 160,375 | 177,156 | 403,649 | 424,254 |
| Finance costs | (5,881) | (4,497) | (10,988) | (9,073) |
| Finance income | 497 | 1,337 | 1,098 | 1,881 |
| Share of post tax profit of an associate | 66 | 184 | 111 | 233 |
| Profit before tax | 155,057 | 174,180 | 393,870 | 417,295 |
| Tax expense | (36,579) | (33,942) | (91,865) | (92,640) |
| Profit after tax | 118,478 | 140,238 | 302,005 | 324,655 |
| Minority interests | - | - | - | - |
| Profit after tax and minority interest | 118,478 | 140,238 | 302,005 | 324,655 |
| Profit for the period | 118,478 | 140,238 | 302,005 | 324,655 |
| Other comprehensive expense, net of tax Item that is or may be reclassified subsequently to profit or loss | | | | |
| Cash flow hedge | (909) | (6,156) | (2,404) | (6,367) |
| Total other comprehensive expense for the period, net of tax | (909) | (6,156) | (2,404) | (6,367) |
| Total comprehensive income for the period | 117,569 | 134,082 | 299,601 | 318,288 |
| Basic earnings per share (sen) | 50.52 | 59.80 | 128.79 | 138.45 |
| Dividend per share - net (sen) | 60.00 | 60.00 | 60.00 | 60.00 |
| | AS AT END OF CURRENT QUARTER | | AS AT PRECEDING FINANCIAL YEAR END | |
| Net assets per share attributable to equity holders (RM) | 3.01 | | 3.48 | |

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2013.

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014**

| | As at 30.06.2014 RM'000 | As at 31.12.2013 RM'000 |
|---|-------------------------------|-------------------------------|
| Assets | | |
| Property, plant and equipment | 1,088,002 | 1,046,463 |
| Intangible assets | 61,024 | 61,024 |
| Investment in an associate | 3,430 | 3,619 |
| Deferred tax assets | 21,375 | 25,775 |
| Trade and other receivables | 22,699 | 21,866 |
| Total non-current assets | 1,196,530 | 1,158,747 |
| Trade and other receivables | 644,624 | 502,207 |
| Inventories | 371,981 | 408,614 |
| Current tax assets | 3,118 | 3,970 |
| Cash and cash equivalents | 11,619 | 15,196 |
| Total current assets | 1,031,342 | 929,987 |
| Total assets | 2,227,872 | 2,088,734 |
| Equity | | |
| Share capital | 234,500 | 234,500 |
| Reserves | 471,170 | 581,944 |
| Total equity attributable to owners of the Company | 705,670 | 816,444 |
| Liabilities | | |
| Loans and borrowings | 90,987 | 92,343 |
| Employee benefits | 20,680 | 25,337 |
| Deferred tax liabilities | 79,915 | 82,748 |
| Total non-current liabilities | 191,582 | 200,428 |
| Trade and other payables | 1,039,734 | 1,022,999 |
| Loans and borrowings | 223,700 | 7,555 |
| Current tax liabilities | 67,186 | 41,308 |
| Total current liabilities | 1,330,620 | 1,071,862 |
| Total liabilities | 1,522,202 | 1,272,290 |
| Total equity and liabilities | 2,227,872 | 2,088,734 |
| Net assets per share attributable to shareholders (RM) | 3.01 | 3.48 |

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2013.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR PERIOD ENDED 30 JUNE 2014**

| | Non Distributable | | Distributable | Total Equity RM'000 |
|--|------------------------------------|-----------------|------------------|------------------------|
| | Share capital and share premium | Hedging reserve | Retained profits | |
| | RM'000 | RM'000 | RM'000 | |
| At 1 January 2013 | 267,500 | (950) | 484,656 | 751,206 |
| Cash flow hedge | - | (6,367) | - | (6,367) |
| Profit for the period | - | - | 324,655 | 324,655 |
| Total comprehensive (expense)/income for the period | - | (6,367) | 324,655 | 318,288 |
| Dividends paid: | | | | |
| - 2012 Final | - | - | (363,475) | (363,475) |
| At 30 June 2013 | 267,500 | (7,317) | 445,836 | 706,019 |
| At 1 January 2014 | 267,500 | 407 | 548,537 | 816,444 |
| Cash flow hedge | - | (2,404) | - | (2,404) |
| Profit for the period | - | - | 302,005 | 302,005 |
| Total comprehensive (expense)/income for the period | - | (2,404) | 302,005 | 299,601 |
| Dividends paid: | | | | |
| - 2013 Final | - | - | (410,375) | (410,375) |
| At 30 June 2014 | 267,500 | (1,997) | 440,167 | 705,670 |

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2013.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR PERIOD ENDED
30 JUNE 2014**

| | 6 months ended 30.06.2014 RM'000 | 6 months ended 30.06.2013 RM'000 |
|---|--|--|
| Cash flows from operating activities | | |
| Profit before tax | 393,870 | 417,295 |
| <i>Adjustments for:</i> | | |
| Amortisation, depreciation and impairment | 55,258 | 54,586 |
| Net finance costs | 9,890 | 7,192 |
| Increase in working capital | (62,861) | (3,902) |
| Income tax paid | (62,766) | (57,705) |
| Others | (1,733) | (5,332) |
| Net cash from operating activities | 331,658 | 412,134 |
| Cash flows from investing activities | | |
| Acquisition of property, plant and equipment | (97,071) | (38,204) |
| Others | 1,535 | 2,724 |
| Net cash used in investing activities | (95,536) | (35,480) |
| Cash flows from financing activities | | |
| Finance costs paid | (10,988) | (9,073) |
| Proceed from/(repayment of) borrowings | 184,523 | (2,916) |
| Dividend payment | (410,375) | (363,475) |
| Net cash used in financing activities | (236,840) | (375,464) |
| Net (decrease)/increase in cash and cash equivalents | (718) | 1,190 |
| Cash and cash equivalents at 1 January | 12,337 | 34,593 |
| Cash and cash equivalents at 30 June | 11,619 | 35,783 |

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2013.

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 as at and for the year ended 31 December 2013.

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 2014 | | 6 months ended 30 June 2014 | |
|---------------------------------------|-----------------------------|---------------------------|-----------------------------|---------------------------|
| | Assets acquired RM'000 | Assets disposed RM'000 | Assets acquired RM'000 | Assets disposed RM'000 |
| Building (improvements and additions) | 1,573 | 5 | 1,976 | 5 |
| Plant and machinery | 64,025 | - | 90,683 | 9 |
| Tools and furniture | 3,287 | 48 | 3,685 | 184 |
| Motor vehicles | - | 48 | - | 66 |
| Information systems | 668 | 9 | 727 | 9 |
| | 69,553 | 110 | 97,071 | 273 |

b. Intangible Assets

There was no capitalisation of intangible assets 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

Dividends paid during the reporting period are as follows:

| | 3 months ended 30 Jun 2014 (RM'000) | 6 months ended 30 Jun 2014 (RM'000) |
|--|---|---|
| Final dividend for the financial year ended 31 December 2013 175.00 sen per share (single-tier) | 410,375 | 410,375 |
| Total | 410,375 | 410,375 |

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 and Nestlé Professional.

| 6 months ended 30 June 2014 | | |
|-----------------------------|------------------|-----------------|
| Food & Beverages RM'000 | Others RM'000 | Total RM'000 |
| Revenue | 2,075,976 | 2,542,876 |
| Operating Profit | 328,626 | 402,496 |

| 6 months ended 30 June 2013 | | |
|-----------------------------|------------------|-----------------|
| Food & Beverages RM'000 | Others RM'000 | Total RM'000 |
| Revenue | 1,994,358 | 2,441,573 |
| Operating Profit | 338,954 | 424,247 |

The comments on page 6 apply to both segments Food & Beverages (82% of total sales) and Others (18% of total sales).

Reconciliations of reportable segment operating profit:

Total operating profit for reported segments

Unallocated income

Consolidated operating profit

| 6 months ended 30 June 2014 RM'000 | 6 months ended 30 June 2013 RM'000 |
|--|--|
| 402,496 | 424,247 |
| 1,153 | 7 |
| 403,649 | 424,254 |

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 30 June 2014 (RM'000) | 6 months ended 30 June 2014 RM'000 |
|---------------------------------|--|--|
| IT shared service | 9,232 | 17,038 |
| Net finance costs | 959 | 2,015 |
| Purchases of goods and services | 114,972 | 234,953 |
| Sales of finished goods | 220,246 | 430,032 |
| Royalties | 60,603 | 121,850 |

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

ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS

1 Review of performance (Quarter 2, 2014 vs Quarter 2, 2013)

For the second quarter ending 30 June 2014, the Group registered a turnover of RM1.3 billion, 4.6% higher than the same period last year. The overall good performance was largely the result of encouraging domestic sales. The "Lebih Baik, Lebih Nilai" campaign towards the end of the first quarter as well as several new product launches, have generated higher demand in the second quarter. NESCAFÉ Latte Caramel, MAGGI BIG Ayam and MAGGI Royale were among the new products introduced during the quarter.

Exports sales came in lower compared to the previous corresponding period. This was mainly due to lower demand from affiliated companies, a trend the Group experienced since the second half of 2013. The second quarter exports however were flat against the first quarter.

From an input cost perspective, commodities prices have been on the uptrend especially for Milk Powders, Coffee Beans and Palm Oil. With the resulting negative impact at a higher level than our internal cost saving initiatives, the Group increased the prices of the affected products but with a timing slightly behind the cost curve. As a result, the gross profit was lower than the same period last year.

The quarter also saw higher investment in marketing and promotional activities which further strengthened the Group's brands and market share position. Despite the higher turnover generated by the domestic business, the unfavourable input costs and higher marketing investments resulted in a lower operating and net profit - by 9.5% and 15.5% respectively - against the same period last year.

2 Review of performance (Year-to-date, 2014 vs Year-to-date, 2013)

For the first half ended 30 June 2014, the Group registered a turnover of RM2.5 billion, 4.1% higher than the corresponding period last year. Although the local economy performed well, consumer sentiment showed an opposite trend. In this half the Group increased its investments in marketing and promotional activities to drive higher domestic sales. The campaigns were successful in driving a robust growth in several categories such as Confectionery, Ice Cream, Liquid Drinks and Beverages.

The export business is composed of sales to affiliated companies in other countries which distribute Nestlé products locally. The unfavourable trend in export sales was a consequence of the increasingly challenging global economic environment as well as a softening in demand for some export categories specifically for exports to Philippines and Indonesia markets which have invested in local manufacturing capability.

From an input cost perspective, the price of commodities has been on the uptrend especially for Milk Powders, Coffee Beans and Palm Oil. With the resulting negative impact at a higher level than our internal cost saving initiatives, the Group increased the prices of the affected products but with a timing slightly behind the cost curve. This slightly impacted the gross margin in the first half of 2014 which was lower by 80 bps against the same period last year.

In the first half, the Group incurred higher operating expenses, mostly driven by investment in marketing and promotional activities. The key "Lebih Baik, Lebih Nilai" campaign from March to April, the World Cup and Ramadan promotional activities successfully fueled sales and further strengthened the Group's market share position.

Despite the higher turnover generated from the domestic business, the unfavourable input costs and higher marketing investments resulted in an operating profit lower by 4.9% against the same period last year. Consequently, the net profit at RM302 million was also lower than the same period last year.

3 Variation of results against previous quarter (Quarter 2, 2014 vs. Quarter 1, 2014)

In the second quarter of 2014, the Group registered a turnover of RM1.3 billion, marginally lower than the previous quarter. With regard to the bottom line, net profit was lower for the quarter driven by higher input costs and the timing of operating expenses which increased in the second quarter.

4 Current year prospects

We remain cautiously optimistic for the remaining of 2014. Recovery in the global economy is expected to continue and the domestic demand is expected to be moderate. The Group however, will continue to leverage on the stable growth of the Malaysian economy and remain active in innovating and renovating its product portfolio while promoting nutritionally balanced diets and healthy lifestyles in line with the Government's goal of creating a healthy and productive society.

The Group will remain focused on growing both top and bottom line while continuing its long term strategy of investing in manufacturing capacity to support its growth. To this effect, the new Sri Muda factory which is under construction has been scheduled to start operations by the fourth quarter of 2014. The Group will also continue to intensify its marketing investments in line with Nestlé's objective of being the leader in Nutrition, Health & Wellness, as well as being an industry benchmark for its financial performance and trusted by all stakeholders.

5 Profit forecast

We do not issue any profit forecast.

6 Tax expense

Current tax

Malaysian - current year

Deferred tax

Origination and reversal of temporary differences

Over provision in prior year

Effect of changes in tax rate

Total income tax expense

| | Tax for this quarter 30.06.2014 RM'000 | Cumulative year 30.06.2014 RM'000 |
|--|---|---|
| | 39,115 | 89,496 |
| | (2,536) | 5,742 |
| | - | (1,007) |
| | - | (2,366) |
| | 36,579 | 91,865 |

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

Short term - Secured loans

Finance lease liabilities (payable within a year)

Total short term loans**Long term - Unsecured loans**

Loan from a related company

Long term - Secured loans

Finance lease liabilities

Total long term loans

All the above debts are in Ringgit Malaysia.

| As at 30.06.2014 RM'000 |
|-------------------------------|
| 220,000 |
| 3,700 |
| 223,700 |
| 84,264 |
| 6,723 |
| 90,987 |

11 Derivatives

Summary of outstanding derivative assets / (liabilities) as at 30.06.2014 :

| Type of derivatives | Notional Value RM'000 | Fair Value RM'000 | Ageing |
|----------------------------|--------------------------|----------------------|------------------|
| Forward exchange contracts | 649,829 | (209) | Less than 1 year |
| Commodity futures | 121,608 | (950) | Less than 1 year |

12 Material litigation

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

13 Dividend

The Board of Directors has declared an interim dividend of 60.00 sen per share (2013: 60.00 sen per share) in respect of financial year ending 31 December 2014 which will be paid on 24 September 2014 to shareholders whose names appear on the Record of Depositors on 3 September 2014. 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 4.00 p.m. on 3 September 2014 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 | |
|--|------------------------|----------------|------------------------|----------------|
| | 2014 RM'000 | 2013 RM'000 | 2014 RM'000 | 2013 RM'000 |
| Profit for the period is arrived at after charging: | | | | |
| Depreciation of property, plant and equipment | 27,858 | 27,589 | 55,258 | 54,586 |
| Loss on derivatives | 264 | 571 | - | 332 |
| Loss on disposal of property, plant and equipment | - | - | 42 | - |
| Provision & write off of inventories | 56 | 1,759 | - | 412 |
| Property, plant and equipment written off | 62 | 75 | 95 | 231 |
| Net foreign exchange loss | 3,365 | 638 | 1,853 | - |
| and after crediting: | | | | |
| Gain on derivatives | - | - | 982 | - |
| Gain on disposal of property, plant and equipment | 60 | 221 | - | 308 |
| Reversal of impairment loss on trade receivables | - | 141 | - | 141 |
| Reversal of provision of inventories | - | - | 1,331 | - |
| Net foreign exchange gain | - | - | - | 3,013 |

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 30.06.2014 | | | | | |
|------------------------------|---|---------|---------|------------------|-----------------|
| | Fair value of financial instruments carried at fair value | | | Total fair value | Carrying amount |
| | Level 1 | Level 2 | Level 3 | | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Financial assets | | | | | |
| Forward exchange contracts | - | 4,480 | - | 4,480 | 4,480 |
| Commodity futures | 2,528 | - | - | 2,528 | 2,528 |
| Financial liabilities | | | | | |
| Forward exchange contracts | - | (4,689) | - | (4,689) | (4,689) |
| Commodity futures | (3,478) | - | - | (3,478) | (3,478) |

| | Fair value of financial instruments not carried at fair value | | | Total fair value | Carrying amount |
|------------------------------|---|---------|----------|------------------|-----------------|
| | Level 1 | Level 2 | Level 3 | | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Financial assets | | | | | |
| Loans to employees | - | - | 23,525 | 23,525 | 23,525 |
| Financial liabilities | | | | | |
| Finance lease liabilities | - | - | (9,836) | (9,836) | (10,423) |
| Loan from a related company | - | - | (84,264) | (84,264) | (84,264) |

| As at 31.12.2013 | | | | | |
|------------------------------|---|---------|---------|------------------|-----------------|
| | Fair value of financial instruments carried at fair value | | | Total fair value | Carrying amount |
| | Level 1 | Level 2 | Level 3 | | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Financial assets | | | | | |
| Forward exchange contracts | - | 6,864 | - | 6,864 | 6,864 |
| Commodity futures | 2,163 | - | - | 2,163 | 2,163 |
| Financial liabilities | | | | | |
| Forward exchange contracts | - | (7,474) | - | (7,474) | (7,474) |

| | Fair value of financial instruments not carried at fair value | | | Total fair value | Carrying amount |
|------------------------------|---|---------|----------|------------------|-----------------|
| | Level 1 | Level 2 | Level 3 | | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Financial assets | | | | | |
| Loans to employees | - | - | 33,678 | 33,678 | 33,678 |
| Financial liabilities | | | | | |
| Finance lease liabilities | - | - | (11,990) | (11,990) | (12,775) |
| Loan from a related company | - | - | (84,264) | (84,264) | (84,264) |

16 Realised and unrealised profit disclosure

| | As at 30.06.2014 | As at 31.12.2013 |
|---|-------------------------|-------------------------|
| | RM'000 | RM'000 |
| Total retained profits of the Group and its subsidiaries: | | |
| Realised | 479,335 | 591,159 |
| Unrealised | (106,595) | (101,340) |
| Total share of retained profits from an associated company: | | |
| Realised | 431 | 619 |
| Unrealised | - | - |
| Add : Consolidation adjustments | 66,996 | 58,099 |
| Total retained profits as per consolidated accounts | 440,167 | 548,537 |

17 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 RM302.0 million (RM324.7 million in June 2013) and the number of ordinary shares outstanding of 234.5 million (234.5 million in June 2013)

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 : August 12, 2014