



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 30 September 2016 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2016**

	3 months ended 30 September		9 months ended 30 September	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Revenue - Sales of goods	1,262,997	1,218,385	3,813,624	3,639,015
Cost of sales	(771,741)	(756,912)	(2,273,728)	(2,233,451)
Gross profit	491,256	461,473	1,539,896	1,405,564
Operating expenses	(298,429)	(247,104)	(831,504)	(773,601)
Operating profit	192,827	214,369	708,392	631,963
Finance costs	(8,067)	(9,705)	(25,020)	(24,391)
Finance income	316	469	841	924
Share of post tax profit of an associate	171	92	789	537
Profit before tax	185,247	205,225	685,002	609,033
Tax expense	(24,535)	(26,064)	(114,816)	(118,090)
Profit after tax	160,712	179,161	570,186	490,943
Minority interests	-	-	-	-
Profit after tax and minority interest	160,712	179,161	570,186	490,943
Profit for the period	160,712	179,161	570,186	490,943
Other comprehensive expense, net of tax Item that is or may be reclassified subsequently to profit or loss				
Cash flow hedge	25,901	90,357	(64,361)	102,990
Remeasurement of defined benefit liability	-	-	-	-
Total other comprehensive expense for the period, net of tax	25,901	90,357	(64,361)	102,990
Total comprehensive income for the period	186,613	269,518	505,825	593,933
Basic earnings per share (sen)	68.53	76.40	243.15	209.36
Proposed/Declared dividend per share - net (sen)	70.00	65.00	140.00	130.00
	AS AT END OF CURRENT QUARTER		AS AT PRECEDING FINANCIAL YEAR END	
Net assets per share attributable to equity holders (RM)	3.18		3.02	

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2015.

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2016**

	As at 30.09.2016 RM'000	As at 31.12.2015 RM'000
Assets		
Property, plant and equipment	1,333,993	1,369,874
Intangible assets	62,504	62,814
Investment in an associate	4,603	4,114
Deferred tax assets	19,506	11,068
Trade and other receivables	26,945	25,048
Total non-current assets	1,447,551	1,472,918
Trade and other receivables	577,087	581,918
Inventories	433,984	414,262
Current tax assets	7,687	5,331
Cash and cash equivalents	19,817	13,901
Total current assets	1,038,575	1,015,412
Total assets	2,486,126	2,488,330
Equity		
Share capital	234,500	234,500
Reserves	510,921	474,096
Total equity attributable to owners of the Company	745,421	708,596
Liabilities		
Loans and borrowings	93,973	96,451
Employee benefits	84,615	81,117
Deferred tax liabilities	78,013	77,539
Total non-current liabilities	256,601	255,107
Trade and other payables	1,177,527	1,231,605
Loans and borrowings	278,653	253,034
Current tax liabilities	27,924	39,988
Total current liabilities	1,484,104	1,524,627
Total liabilities	1,740,705	1,779,734
Total equity and liabilities	2,486,126	2,488,330
Net assets per share attributable to shareholders (RM)	3.18	3.02

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2015.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR PERIOD ENDED 30 SEPTEMBER 2016**

	Non Distributable		Distributable	Total Equity RM'000
	<i>Share capital and share premium</i>	<i>Hedging reserve</i>	<i>Retained profits</i>	
	RM'000	RM'000	RM'000	
At 1 January 2015	267,500	(332)	509,969	777,137
Cash flow hedge	-	102,990	-	102,990
Profit for the period	-	-	490,943	490,943
Total comprehensive income for the period	-	102,990	490,943	593,933
Dividends paid:				
- 2014 Final	-	-	(410,375)	(410,375)
- 2015 Interim	-	-	(152,425)	(152,425)
At 30 September 2015	267,500	102,658	438,112	808,270
At 1 January 2016	267,500	75,976	365,120	708,596
Cash flow hedge	-	(64,361)	-	(64,361)
Profit for the period	-	-	570,186	570,186
Total comprehensive (expense)/income for the period	-	(64,361)	570,186	505,825
Dividends paid:				
- 2015 Final	-	-	(304,850)	(304,850)
- 2016 Interim	-	-	(164,150)	(164,150)
At 30 September 2016	267,500	11,615	466,306	745,421

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2015.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR PERIOD ENDED
30 SEPTEMBER 2016**

	9 months ended 30.09.2016 RM'000	9 months ended 30.09.2015 RM'000
Cash flows from operating activities		
Profit before tax	685,002	609,033
<i>Adjustments for:</i>		
Amortisation, depreciation and impairment	99,294	91,592
Net finance costs	24,179	23,467
Increase in working capital	(151,436)	(191,489)
Income tax paid	(116,876)	(110,810)
Others	7,459	(495)
Net cash from operating activities	547,622	421,298
Cash flows from investing activities		
Acquisition of property, plant and equipment	(64,346)	(126,827)
Others	2,335	1,646
Net cash used in investing activities	(62,011)	(125,181)
Cash flows from financing activities		
Finance costs paid	(25,020)	(24,391)
(Repayment of)/Proceed from borrowings	(61,406)	216,897
Dividend payment	(469,000)	(562,800)
Net cash used in financing activities	(555,426)	(370,294)
Net decrease in cash and cash equivalents	(69,815)	(74,177)
Cash and cash equivalents at 1 January	(84,465)	(15,916)
Cash and cash equivalents at 30 September	(154,280)	(90,093)

This interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2015.

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 2015.

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 September 2016		9 months ended 30 September 2016	
	Assets acquired RM'000	Assets disposed RM'000	Assets acquired RM'000	Assets disposed RM'000
Building (improvements and additions)	6,150	-	7,501	-
Plant and machinery	18,236	644	40,955	779
Tools and furniture	4,220	55	13,355	111
Motor vehicles	-	85	451	289
Information systems	1,109	-	2,084	-
	29,715	784	64,346	1,179

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 30.09.2016 (RM'000)	9 months ended 30.09.2016 (RM'000)
Interim dividend for the financial year ended 31 December 2016 70.00 sen per share (single-tier)	164,150	164,150
Final dividend for the financial year ended 31 December 2015 110.00 sen per share (single-tier)	-	257,950
Special dividend for the financial year ended 31 December 2015	-	46,900
Total	164,150	469,000

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 and Nespresso.

	9 months ended 30 September 2016		
	Food & Beverages RM'000	Others RM'000	Total RM'000
Segment revenue and results			
Revenue	3,038,148	775,476	3,813,624
Operating Profit	563,607	145,582	709,189

	9 months ended 30 September 2015		
	Food & Beverages RM'000	Others RM'000	Total RM'000
Segment revenue and results			
Revenue	2,915,808	723,207	3,639,015
Operating Profit	522,984	108,819	631,803

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:

Total operating profit for reported segments

Other unallocated expenses

Consolidated operating profit

	9 months ended 30.09.2016 RM'000	9 months ended 30.09.2015 RM'000
Total operating profit for reported segments	709,189	631,803
Other unallocated expenses	(797)	160
Consolidated operating profit	708,392	631,963

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 30.09.2016 RM'000	9 months ended 30.09.2016 RM'000
IT shared service	9,396	29,813
Net finance costs	1,276	4,352
Purchases of goods and services	140,578	406,375
Sales of finished goods	215,982	618,425
Royalties	62,345	188,693

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 3, 2016 vs Quarter 3, 2015)

For the third quarter ended 30 September 2016, the Group recorded a turnover increase of 3.7% (+RM45 million) compared to Q3 2015. The domestic business (+3.5%) as well as the Export business (+4.5%) contributed to this overall growth. Within the 3rd quarter, the Group continued its innovation and renovation drive by launching successfully many new products such as NESTLÉ Bliss Go, NESTUM Banana Caramel, NESCAFÉ Tarik Ready-to-Drink and MAGGI Oatmee.

From profit perspective, Gross Profit increased from RM461 million to RM491 million, a growth of 6.5%. Main drivers for the improved Gross Profit were the higher turnover as well as efficiency increases in the factories and the supply chain. These savings were reinvested into the business by supporting the new products as well as by intensifying our Trade-and Consumer promotions in order to continue to strengthen our market share position as the base for a sustainable growth. As a result, the Operating Profit and the Net Profit reduced compared to the corresponding period in 2015.

2 Review of performance (Year-to-date, 2016 vs Year-to-date, 2015)

For the first nine months ended 30 September 2016, the Group registered a turnover of RM 3.8 billion, 4.8% higher than the previous year's corresponding period. This solid performance was supported by higher domestic sales and a strong growth in the Export business. The growth in the domestic business was driven by the continuous innovation and renovation initiatives as well as by successful Trade and-Consumer promotions.

The Gross Profit rose by 9.6% driven by the higher turnover, favourable commodity prices as well as efficiency increases in the factories and in the overall supply chain. These savings were partially re-invested in Trade-and Consumer promotion activities in order to fuel the growth. This balanced business approach has enabled the Group to continue registering good growth in the operating profit (RM 708 million), 12.1% higher than the same period last year.

As a result and in addition to a lower effective tax rate, the profit after tax increased from RM 491 million to RM 570 million, representing an improvement of 16.1%.

3 Variation of results against previous quarter (Quarter 3, 2016 vs. Quarter 2, 2016)

In the third quarter of 2016, the Group registered a turnover of RM1.3 billion, 2.1% higher than the previous quarter. The lower net profit in comparison to the prior quarter was mainly due to the higher input cost and intense marketing and promotional activities in the third quarter.

4 Current year prospects

Based on our cautiously optimistic outlook for the 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.

5 Profit forecast

We do not issue any profit forecast.

6 Tax expense

Current tax

Malaysian - current year

Total current tax expense

Deferred tax

Origination and reversal of temporary differences

Over provision in prior year

Total deferred tax expense

Total income tax expense

	3 months ended 30.09.2016 RM'000	9 months ended 30.09.2016 RM'000
	24,066	86,456
	24,066	86,456
	15,469	58,906
	(15,000)	(30,546)
	469	28,360
	24,535	114,816

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

Banker's acceptance

Bank overdraft

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 30.09.2016 RM'000
100,000
174,097
4,556
278,653
84,264
9,709
93,973

11 Derivatives

Summary of outstanding derivative assets / (liabilities) as at 30.09.2016 :

Type of derivatives	Notional Value RM'000	Fair Value RM'000	Difference RM'000	Ageing
Forward exchange contracts	730,853	733,090	2,237	Less than 1 year
Commodity futures	58,105	76,282	18,177	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 a second interim dividend of 70.00 sen per share (2015: 65.00 sen per share) in respect of financial year ending 31 December 2016 which will be paid on 2 December 2016 to shareholders whose names appear on the Record of Depositors on 15 November 2016. 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 15 November 2016 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 September		9 months ended 30 September	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit for the period is arrived at after charging:				
Amortisation of intangible assets	103	172	310	172
Depreciation of property, plant and equipment	33,292	33,745	98,984	91,420
Loss on derivatives	292	694	-	797
Loss on disposal of property, plant and equipment	-	-	-	154
Provision & write off of receivables	3,118	-	3,118	288
Provision & write off of inventories	3,421	-	3,143	1,348
Property, plant and equipment written off	46	149	76	309
Net foreign exchange loss	8,286	19,816	-	16,194
and after crediting:				
Gain on derivatives	-	-	117	-
Gain on disposal of property, plant and equipment	276	38	90	-
Reversal of impairment loss on trade receivables	-	1,844	-	-
Reversal of provision of inventories	-	2,158	-	-
Net foreign exchange gain	-	-	29,156	-

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 30.09.2016				
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				
Commodity futures	18,581	-	-	18,581
Forward exchange contracts	-	12,417	-	12,417
Financial liabilities				
Forward exchange contracts	-	(10,180)	-	(10,180)
Commodity futures	(404)	-	-	(404)

Fair value of financial instruments not carried at fair value				
Level 1	Level 2	Level 3	Total fair value	Carrying amount
RM'000	RM'000	RM'000		
Financial assets				
Loans to employees	-	-	41,696	41,696
Financial liabilities				
Finance lease liabilities	-	-	(13,298)	(14,266)
Loan from a related company	-	-	(84,264)	(84,264)

As at 31.12.2015				
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				
Commodity futures	5,566	-	-	5,566
Forward exchange contracts	-	107,370	-	107,370
Financial liabilities				
Forward exchange contracts	-	(5,576)	-	(5,576)
Commodity futures	(10,194)	-	-	(10,194)

Fair value of financial instruments not carried at fair value				
Level 1	Level 2	Level 3	Total fair value	Carrying amount
RM'000	RM'000	RM'000		
Financial assets				
Loans to employees	-	-	37,846	37,846
Financial liabilities				
Finance lease liabilities	-	-	(15,600)	(16,855)
Loan from a related company	-	-	(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 (2015: 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 Realised and unrealised profit disclosure

Total retained profits of the Group and its subsidiaries:

Realised

Unrealised

Total share of retained profits from an associated company:

Realised

Unrealised

Add : Consolidation adjustments

Total retained profits as per consolidated accounts

As at 30.09.2016 RM'000	As at 31.12.2015 RM'000
588,282	501,065
(168,567)	(194,921)
1,604	1,114
-	-
44,987	57,862
466,306	365,120

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 RM570.2 million (RM490.9 million in September 2015) and the number of ordinary shares outstanding of 234.5 million (234.5 million in September 2015).

b. Diluted earnings per share

Not applicable for the Group

BY ORDER OF THE BOARDTengku Ida Adura Binti Tengku Ismail, *MCCS (MACS 01686)**Company Secretary***Date : October 25, 2016**