

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 2018 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2018**

| | 3 months ended 30 Sept | | | 9 months ended 30 Sept | | |
|--|-------------------------------------|------------------------------|--------------|--|------------------------------|--------------|
| | 2018 RM'000 | 2017 Restated * RM'000 | % | 2018 RM'000 | 2017 Restated * RM'000 | % |
| Revenue - Sales of goods | 1,432,452 | 1,323,253 | 8.3% | 4,171,182 | 3,978,765 | 4.8% |
| Cost of sales | (877,221) | (867,388) | | (2,560,795) | (2,495,268) | |
| Gross profit | 555,231 | 455,865 | 21.8% | 1,610,387 | 1,483,497 | 8.6% |
| Operating expenses | (357,550) | (302,529) | | (885,697) | (810,480) | |
| Operating profit | 197,681 | 153,336 | 28.9% | 724,690 | 673,017 | 7.7% |
| Finance costs | (11,901) | (9,637) | | (32,023) | (27,668) | |
| Finance income | 779 | 363 | | 2,083 | 1,031 | |
| Share of post tax profit of an associate | 162 | 281 | | 1,204 | 871 | |
| Profit before tax | 186,721 | 144,343 | 29.4% | 695,954 | 647,251 | 7.5% |
| Tax expense | (49,034) | (25,331) | | (160,890) | (136,112) | |
| Profit after tax | 137,687 | 119,012 | 15.7% | 535,064 | 511,139 | 4.7% |
| Minority interests | - | - | | - | - | |
| Profit after tax and minority interest | 137,687 | 119,012 | 15.7% | 535,064 | 511,139 | 4.7% |
| Profit for the period | 137,687 | 119,012 | 15.7% | 535,064 | 511,139 | 4.7% |
| Other comprehensive income/(expense), net of tax | | | | | | |
| Item that is or may be reclassified subsequently to profit or loss | | | | | | |
| Cash flow hedge | (720) | 5,539 | | 25,502 | (17,297) | |
| Item that will not be reclassified subsequently to profit or loss | - | - | | - | - | |
| Total other comprehensive income/(expense) for the period, net of tax | (720) | 5,539 | | 25,502 | (17,297) | |
| Total comprehensive income for the period | 136,967 | 124,551 | 10.0% | 560,566 | 493,842 | 13.5% |
| Basic earnings per share (sen) | 58.72 | 50.75 | | 228.17 | 217.97 | |
| Proposed/Declared dividend per share-net (sen) | 70.00 | 70.00 | | 140.00 | 140.00 | |
| | AS AT END OF CURRENT QUARTER | | | AS AT PRECEDING FINANCIAL YEAR END (RESTATED) * | | |
| Net assets per share attributable to equity holders (RM) | | 3.02 ** | | | 2.71 ** | |

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

* 2017 comparative figure restated due to adoption of MFRS 16 Leases. Please refer to Note 1(C) of page 4.

** Calculation based on the number of ordinary shares outstanding of 234.5 million (234.5 million in September 2017).

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2018**

| | As at 30.09.2018 RM'000 | As at 31.12.2017 Restated * RM'000 |
|---|--|---|
| Assets | | |
| Property, plant and equipment | 1,194,240 | 1,295,463 |
| Right of use assets | 272,332 | 134,681 |
| Intangible assets | 64,572 | 61,986 |
| Investment in an associate | 5,493 | 4,709 |
| Deferred tax assets | 21,069 | 20,519 |
| Trade and other receivables | 24,734 | 24,283 |
| Total non-current assets | 1,582,440 | 1,541,641 |
| Trade and other receivables | 672,769 | 580,848 |
| Inventories | 461,795 | 467,316 |
| Current tax assets | 163 | 12,333 |
| Assets classified as held for sale | 73,485 | - |
| Cash and cash equivalents | 156,941 | 12,615 |
| Total current assets | 1,365,153 | 1,073,112 |
| Total assets | 2,947,593 | 2,614,753 |
| Equity | | |
| Share capital | 267,500 | 267,500 |
| Hedging reserve | 16,330 | (9,172) |
| Retained earnings | 424,946 | 377,562 |
| Total equity attributable to owners of the Company | 708,776 | 635,890 |
| Liabilities | | |
| Loans and borrowings | 84,264 | 84,264 |
| Lease obligation | 169,212 | 17,836 |
| Employee benefits | 93,461 | 89,749 |
| Deferred tax liabilities | 128,317 | 120,987 |
| Total non-current liabilities | 475,254 | 312,836 |
| Trade and other payables | 1,370,520 | 1,296,619 |
| Loans and borrowings | 281,384 | 305,631 |
| Lease obligation | 42,527 | 43,969 |
| Current tax liabilities | 69,132 | 19,808 |
| Total current liabilities | 1,763,563 | 1,666,027 |
| Total liabilities | 2,238,817 | 1,978,863 |
| Total equity and liabilities | 2,947,593 | 2,614,753 |
| Net assets per share attributable to shareholders (RM) | 3.02 ** | 2.71 ** |

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

* 2017 comparative figure restated due to adoption of MFRS 16 Leases. Please refer to Note 1(C) of page 4.

** Calculation based on the number of ordinary shares outstanding of 234.5 million (234.5 million in September 2017).

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR PERIOD ENDED 30 SEPTEMBER 2018**

| | Non Distributable | | Distributable | Total Equity RM'000 |
|--|-------------------|-----------------|------------------|------------------------|
| | Share capital | Hedging reserve | Retained profits | |
| | RM'000 | RM'000 | RM'000 | |
| At 1 January 2017, as previously reported | *** 267,500 | 10,895 | 368,826 | 647,221 |
| Adjustments from adoption of MFRS 16 ** | - | - | (2,965) | (2,965) |
| Restated balance as at 1 January 2017 | 267,500 | 10,895 | 365,861 | 644,256 |
| Cash flow hedge | - | (17,297) | - | (17,297) |
| Profit for the period | - | - | 511,139 | 511,139 |
| Total comprehensive (expense)/income for the period | - | (17,297) | 511,139 | 493,842 |
| <u>Dividends paid:</u> | | | | |
| - Final dividend for the financial year 2016 | - | - | (304,850) | (304,850) |
| - Interim dividend for the financial year 2017 | - | - | (164,150) | (164,150) |
| Restated balance as at 30 September 2017 | 267,500 | (6,402) | 408,000 | 669,098 |
| At 31 December 2017, as previously reported | *** 267,500 | (9,172) | 381,600 | 639,928 |
| Adjustments from adoption of MFRS 16 ** | - | - | (4,038) | (4,038) |
| Restated balance as at 31 December 2017 | 267,500 | (9,172) | 377,562 | 635,890 |
| Opening balance adjustments from adoption of MFRS 9 ** | - | - | (6,955) | (6,955) |
| Restated balance as at 1 January 2018 | 267,500 | (9,172) | 370,607 | 628,935 |
| Cash flow hedge | - | 25,502 | - | 25,502 |
| Profit for the period | - | - | 535,064 | 535,064 |
| Total comprehensive income for the period | - | 25,502 | 535,064 | 560,566 |
| <u>Dividends paid:</u> | | | | |
| - Final dividend for the financial year 2017 | - | - | (316,575) | (316,575) |
| - Interim dividend for the financial year 2018 | - | - | (164,150) | (164,150) |
| At 30 September 2018 | 267,500 | 16,330 | 424,946 | 708,776 |

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

** Adjustments of MFRS 9 *Financial Instruments* and MFRS 16 *Leases* is net of deferred tax.

*** In accordance to Section 618 of Companies Act 2016, share premium amounted to RM33 million has been transferred to share capital and the number of shares remain unchanged at 234.5 million.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR PERIOD ENDED
30 SEPTEMBER 2018**

| | 9 months ended 30.09.2018 RM'000 | 9 months ended 30.09.2017 Restated * RM'000 |
|--|--|--|
| Cash flows from operating activities | | |
| Profit before tax | 695,954 | 647,251 |
| <i>Adjustments for:</i> | | |
| Amortisation and depreciation | 123,205 | 123,893 |
| Net finance costs | 29,940 | 26,637 |
| <i>Less:</i> | | |
| Movement in working capital | 13,266 | (196,487) |
| Income tax paid | (98,475) | (79,040) |
| Others | 6,813 | 17,438 |
| Net cash from operating activities | 770,703 | 539,692 |
| Cash flows from investing activities | | |
| Acquisition of property, plant and equipment | (59,139) | (75,759) |
| Acquisition of intangible assets | (2,893) | - |
| Others | 2,865 | 2,400 |
| Net cash used in investing activities | (59,167) | (73,359) |
| Cash flows from financing activities | | |
| Finance costs paid | (32,023) | (26,488) |
| Proceed from borrowings | - | 173,120 |
| Dividend payment | (480,725) | (469,000) |
| Payment of lease obligation | (24,537) | (24,071) |
| Net cash used in financing activities | (537,285) | (346,439) |
| Net increase in cash and cash equivalents | 174,251 | 119,894 |
| Cash and cash equivalents at 1 January | (17,310) | (155,757) |
| Cash and cash equivalents at 30 September | 156,941 | (35,863) |

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

* 2017 comparative figure restated due to adoption of MFRS 16 *Leases*. Please refer to Note 1(C) of page 4.

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 2017.

The accounting policies applied in this interim financial report are the same as those applied in the Group's consolidated financial statements 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 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 impairment of trade receivables 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 (RM7.0 million net of deferred tax) were recognised in the opening retained earnings.

C. Adoption of MFRS 16 Leases

The Group has elected early adoption of MFRS 16 *Leases* with effective of 1 January 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 30.9.2017 | | |
|--|---------------------|-------------------|------------------|
| | Previously reported | Effect of MFRS 16 | Restated * |
| Revenue - Sales of goods | 3,978,765 | - | 3,978,765 |
| Cost of sales | (2,494,479) | (789) | (2,495,268) |
| Gross profit | 1,484,286 | (789) | 1,483,497 |
| Operating expenses | (811,337) | 857 | (810,480) |
| Operating profit | 672,949 | 68 | 673,017 |
| Finance costs | (26,488) | (1,180) | (27,668) |
| Finance income | 1,031 | - | 1,031 |
| Share of post tax profit of an associate | 871 | - | 871 |
| Profit before tax | 648,363 | (1,112) | 647,251 |
| Tax expense | (136,112) | - | (136,112) |
| Profit after tax | 512,251 | (1,112) | 511,139 |
| Profit after tax and minority interest | 512,251 | (1,112) | 511,139 |
| Profit for the period | 512,251 | (1,112) | 511,139 |
| Total comprehensive income for the period | 494,954 | (1,112) | 493,842 |
| Basic earnings per share (sen) | 218.44 | | 217.97 |

(ii) Reconciliation of financial position and equity

| | As at 31.12.2017 | | |
|---|---------------------|-------------------|------------------|
| | Previously reported | Effect of MFRS 16 | Restated * |
| Assets | | | |
| Right of use assets | 78,189 | 56,492 | 134,681 |
| Other non-current assets | 1,405,685 | 1,275 | 1,406,960 |
| Total non-current assets | 1,483,874 | 57,767 | 1,541,641 |
| Total current assets | 1,073,112 | - | 1,073,112 |
| Total assets | 2,556,986 | 57,767 | 2,614,753 |
| Equity | | | |
| Share capital | 267,500 | - | 267,500 |
| Hedging reserve | (9,172) | - | (9,172) |
| Retained earnings | 381,600 | (4,038) | 377,562 |
| Total equity attributable to owners of the Company | 639,928 | (4,038) | 635,890 |
| 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 | 2,556,986 | 57,767 | 2,614,753 |

* 2017 comparative figure restated due to adoption of MFRS 16 Leases. Please refer to Note 1(C) of page 4.

(iii) Reconciliation of cash flows

| | 9 months ended 30.9.2017 | | |
|--|--------------------------|-------------------|------------------|
| | Previously reported | Effect of MFRS 16 | Restated * |
| Cash flows from operating activities | | | |
| Profit before tax | 648,363 | (1,112) | 647,251 |
| <i>Adjustments for:-</i> | | | |
| Amortisation, depreciation and impairment | 99,890 | 24,003 | 123,893 |
| Net finance costs | 25,457 | 1,180 | 26,637 |
| Movement in working capital | (196,487) | - | (196,487) |
| Income tax paid | (79,040) | - | (79,040) |
| Others | 17,438 | - | 17,438 |
| Net cash from operating activities | 515,621 | 24,071 | 539,692 |
| Cash flows from investing | | | |
| Acquisition of Property, plant and equipment | (75,759) | - | (75,759) |
| Others | 2,400 | - | 2,400 |
| Net cash used in investing activities | (73,359) | - | (73,359) |
| Cash flows from financing activities | | | |
| Finance cost paid | (26,488) | - | (26,488) |
| Proceed from borrowings | 173,120 | - | 173,120 |
| Dividend payment | (469,000) | - | (469,000) |
| Payment of lease obligation | - | (24,071) | (24,071) |
| Net cash used in financing activities | (322,368) | (24,071) | (346,439) |
| Net increase in cash and cash equivalents | 119,894 | - | 119,894 |
| Cash and cash equivalents at 1 January | (155,757) | - | (155,757) |
| Cash and cash equivalents at 30 September | (35,863) | - | (35,863) |

* 2017 comparative figure restated due to adoption of MFRS 16 Leases. Please refer to Note 1(C) of page 4.

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 Sept 2018 | | 9 months ended 30 Sept 2018 | |
|---------------------------------------|-----------------------------|-------------------------------|-----------------------------|-------------------------------|
| | Assets acquired | Assets disposed/ write-off | Assets acquired | Assets disposed/ write-off |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Building (improvements and additions) | 1,277 | - | 2,349 | 4 |
| Plant and machinery (include AUC) | 25,645 | 50 | 45,538 | 246 |
| Tools and furniture | 4,654 | 190 | 8,361 | 284 |
| Motor vehicles | - | - | 1,297 | 138 |
| Information systems | 1,345 | 3 | 1,594 | 132 |
| | 32,921 | 243 | 59,139 | 804 |

b. Right of use

In 2nd quarter of this year, the Group has new lease assets (right-of-use) of RM172.9 million (where lease obligation is RM171.5 million and initial direct cost is RM1.4 million) from the new Distribution Center in Sijangkang with 10 years' tenure.

Addition to lease assets in 3rd quarter of 2018 relates to recognition of NESPRESSO Boutique in Mid Valley Megamall (RM1.5 million).

c. Intangible Assets

In 3rd quarter of this year, the Group has recognised development cost of RM2.9 million to migrate to new system environment on 1st January 2019.

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 30.09.2018 (RM'000) | 9 months ended 30.09.2018 (RM'000) |
|--|--|--|
| Interim dividend for the financial year ending 31 December 2018 70.00 sen per share (single-tier) | 164,150 | 164,150 |
| Final dividend for the financial year ended 31 December 2017 135.00 sen per share (single-tier) | - | 316,575 |
| Total | 164,150 | 480,725 |

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.

| | 9 months ended 30 Sept 2018 | | |
|------------------------------------|-----------------------------|------------------|-----------------|
| | Food & Beverages RM'000 | Others RM'000 | Total RM'000 |
| Segment revenue and results | | | |
| Revenue | 3,345,838 | 825,344 | 4,171,182 |
| Operating Profit | 585,145 | 139,246 | 724,391 |

| | 9 months ended 30 Sept 2017 | | |
|------------------------------------|-----------------------------|------------------|-----------------|
| | Food & Beverages RM'000 | Others RM'000 | Total RM'000 |
| Segment revenue and results | | | |
| Revenue | 3,190,413 | 788,352 | 3,978,765 |
| Operating Profit | 554,052 | 118,631 | 672,683 |

The comments on page 8 apply to both segments Food & Beverages (80% of total sales) and Others (20% of total sales).

Reconciliations of reportable segment operating profit:

| | 9 months ended 30.09.2018 RM'000 | 9 months ended 30.09.2017 Restated * RM'000 |
|--|--|--|
| Total operating profit for reported segments | 724,391 | 672,683 |
| Other unallocated income | 299 | 334 |
| Consolidated operating profit | 724,690 | 673,017 |

* 2017 comparative figure restated due to adoption of MFRS 16 Leases. Please refer to Note 1(C) of page 4.

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

On 9 October 2018, the Group announced that it would move existing MILO manufacturing operations in Petaling Jaya (PJ) Factory to Chembong Factory, as part of its strategy to establish Chembong Factory as the world's biggest MILO Manufacturing Centre of Excellence. Pursuant to this plan, Nestlé Products Sdn Bhd ("NPS") and Nestlé Manufacturing (Malaysia) Sdn Bhd ("NMM"), subsidiaries of the Group, have entered into a Business Transfer Agreement with Lactalis Trading Malaysia Sdn. Bhd. and Lactalis Manufacturing Malaysia Sdn. Bhd., a global leader in the dairy business, to sell and transfer the Chilled Dairy business, PJ factory and a segment of manufacturing assets for a total cash consideration of RM155.3 million.

The divestment of PJ factory, including the manufacturing of chilled dairy products and cold sauces and the packing of milk powder, is expected to take effect on 1 July 2019. The Chilled Dairy business however is expected to be taken over by Lactalis Trading Malaysia Sdn. Bhd. effective from 1 January 2019.

As of 30 September 2018, the carrying amount of assets at PJ factory and Chilled Dairy business classified as Assets Held for Sale amounting to RM73.5 million (2017: Nil).

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 30.09.2018 RM'000 | 9 months ended 30.09.2018 RM'000 |
|---------------------------------|--|--|
| IT shared service | 5,772 | 20,590 |
| Net finance costs | 3,084 | 7,443 |
| Purchases of goods and services | 205,107 | 529,933 |
| Sales of finished goods | 247,624 | 685,879 |
| Royalties | 70,951 | 208,053 |

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, 2018 vs Quarter 3, 2017)

For the third quarter ended 30 Sept 2018, the Group increased its revenue by 8.3%, from RM1.32 billion to RM1.43 billion (+RM109 million) compared to Q3 2017. This growth was driven by strong Domestic and Export sales. The 0% GST implementation from June 2018 to August 2018 further boosted consumer spending, leading to higher demand and increased sales. With the move and transition to the new National Distribution Centre (NDC) in late Quarter 2 fully completed in July, the Group benefitted from the encouraging market situation.

The higher turnover coupled with an improved margin contributed to an additional Gross Profit of almost RM100 million (Q3 2017: RM456 million ; Q3 2018: RM555 million). The favourable price trend in major raw materials and our continuous drive for efficiency increases along the supply chain led to this margin improvement. The quarter also saw strong marketing and promotional activities supporting the higher sales, and this was reflected in the higher operational expenses recorded. As a result, the profit before tax increased by 29.4% from RM144.3 million to RM186.7 million, while profit after tax improved from RM119.0 million to RM137.7 million.

2 Review of performance (Year-to-date, 2018 vs Year-to-date, 2017)

For the first nine months ended 30 Sept 2018, the Group registered a turnover of RM4.2 billion, 4.8% higher than the previous year's corresponding period. The strong growth was driven by improved consumer sentiment as well as our successful innovations and renovations. Our MAGGI Noodles range saw especially strong growth, mainly contributed by the launch of our Pedas Giler variety. Other innovative product launches were Nestlé Tropicana Lychee Yogurt Flavour Ice Cream, MILO 3-in-1 Less Sugar and NESCAFÉ Cold Brew.

The turnover growth combined with an improved margin led to an increase in Gross Profit from RM1.48 billion to RM1.61 billion, reflecting a 8.6% jump. Operating Profit was also up by 7.7% from RM673 million to RM725 million. These strong results were achieved despite the one-off expenses incurred due to the relocation of Nestlé's new National Distribution Centre (NDC) in the second quarter, which is also the Group's largest NDC in Asia. Profit after tax rose by RM24 million, from RM511 million to RM535 million.

3 Variation of results against previous quarter (Quarter 3, 2018 vs. Quarter 2, 2018)

In the third quarter, the Group registered a turnover of RM1.4 billion, 9.4% higher than the previous quarter. The 0% GST from June 2018 to August 2018 helped to boost consumer confidence which led to a stronger demand and higher sales..

Profit before tax reduced to a level of RM186.7 million, mainly driven by an anticipated and planned phasing of the Marketing Investments. Q3 shows normally higher investments than Q2.

4 Current year prospects

Against the backdrop of a more encouraging year for the Malaysian economy, we remain committed to our long-term strategy to 'Fuel the Growth' via our innovative drive and enhancing our strong brand portfolio. We are confident that our investments, including the new Nestlé Distribution Centre, will enable us to maintain our solid growth momentum. In line with this commitment, the Group has recently announced the RM100 million investment in MILO manufacturing making the Chembong Factory the largest MILO manufacturing Centre of Excellence in the world. The Company strives to improve efficiencies across our supply chain and reinvest savings to achieve sustainable and profitable growth.

5 Profit forecast

We do not issue any profit forecast.

6 Tax expense

Current tax

Malaysian - current year
- prior year

Total current tax expense

Deferred tax

Origination and reversal of temporary differences

Total deferred tax expense

Total income tax expense

| | 3 months ended 30.09.2018 RM'000 | 9 months ended 30.09.2018 RM'000 |
|--|---|---|
| | 51,045 | 163,954 |
| | (1) | (3,985) |
| | 51,044 | 159,969 |
| | (2,010) | 921 |
| | (2,010) | 921 |
| | 49,034 | 160,890 |

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

Loan from a related company

Bank overdraft

Total short term loans

Long term - Unsecured loans

Loan from a related company

Total long term loans

| As at 30.09.2018 RM'000 |
|-------------------------------|
| 281,384 |
| - |
| 281,384 |
| 84,264 |
| 84,264 |

The Group has a short-term unsecured loan from Nestlé Treasury Centre - Middle East & Africa for the amount of USD69 million (RM281 million). This loan is for 6-months tenor with roll-over option. Long term unsecured loan of RM84 million is also from Nestlé Treasury Centre - Middle East & Africa. The Group also obtained a bank overdraft facility from a local bank in Malaysia.

11 Derivatives

Summary of outstanding derivative assets / (liabilities) as at 30.09.2018 :

| Type of derivatives | Notional Value RM'000 | Fair Value RM'000 | Difference RM'000 | Ageing |
|----------------------------|--------------------------|----------------------|----------------------|------------------|
| Forward exchange contracts | (368) | (367) | - | Less than 1 year |
| Commodity futures | 58 | 58 | - | 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 70.00 sen per share (2017: 70.00 sen per share) in respect of financial year ending 31 December 2018 which will be paid on 13 December 2018 to shareholders whose names appear on the Record of Depositors on 21 November 2018. 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 21 November 2018 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 Sept | | 9 months ended 30 Sept | |
|--|------------------------|------------------------------|------------------------|------------------------------|
| | 2018 RM'000 | 2017 Restated * RM'000 | 2018 RM'000 | 2017 Restated * RM'000 |
| Profit for the period is arrived at after charging: | | | | |
| Amortisation of right of use | 7,974 | 8,256 | 22,112 | 24,003 |
| Amortisation of intangible assets | 106 | 106 | 310 | 310 |
| Depreciation of property, plant and equipment | 34,439 | 36,587 | 100,783 | 102,265 |
| Finance cost of lease obligation | 1,950 | 360 | 3,144 | 1,180 |
| Loss on derivatives | 4,999 | - | - | - |
| Loss on disposal of property, plant and equipment | 4 | - | 134 | - |
| Provision & write off of receivables | 1,709 | 816 | 11,642 | 624 |
| Provision & write off of inventories | 389 | - | 1,203 | - |
| Property, plant and equipment written off | 215 | 17 | 307 | 86 |
| and after crediting: | | | | |
| Gain on derivatives | - | 333 | 309 | 569 |
| Gain on disposal of property, plant and equipment | - | 63 | - | 1,200 |
| Reversal of provision of inventories | - | 727 | - | 4,802 |
| Net foreign exchange gain | 881 | 58 | 6,818 | 11,193 |

* 2017 comparative figure restated due to adoption of MFRS 16 Leases. Please refer to Note 1(C) of page 4.

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 30.09.2018 | | | | |
|---|---------|---------|------------------|-----------------|
| 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 | 432 | - | - | 432 |
| Forward exchange contracts | - | 19,960 | - | 19,960 |
| Financial liabilities | | | | |
| Forward exchange contracts | - | (5,531) | - | (5,531) |
| Commodity futures | (2,212) | - | - | (2,212) |
| 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 | - | - | 39,337 | 39,337 |
| Financial liabilities | | | | |
| Loan from a related company | - | - | (365,648) | (365,648) |

| As at 30.09.2017 | | | | |
|---|---------|----------|------------------|-----------------|
| 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 | 513 | - | - | 513 |
| Forward exchange contracts | - | 5,727 | - | 5,727 |
| Financial liabilities | | | | |
| Forward exchange contracts | - | (11,830) | - | (11,830) |
| Commodity futures | (6,127) | - | - | (6,127) |
| 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 | - | - | 40,051 | 40,051 |
| Financial liabilities | | | | |
| Loan from a related company | - | - | (371,531) | (371,531) |

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 (2017: 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 RM535.1 million (RM511.1 million in September 2017) and the number of ordinary shares outstanding of 234.5 million (234.5 million in September 2017).

b. Diluted earnings per share

Not applicable for the Group

BY ORDER OF THE BOARD

Tengku Ida Adura Binti Tengku Ismail, MCCA (MACS 01686)

Company Secretary

Date : October 30, 2018