



Nestlé

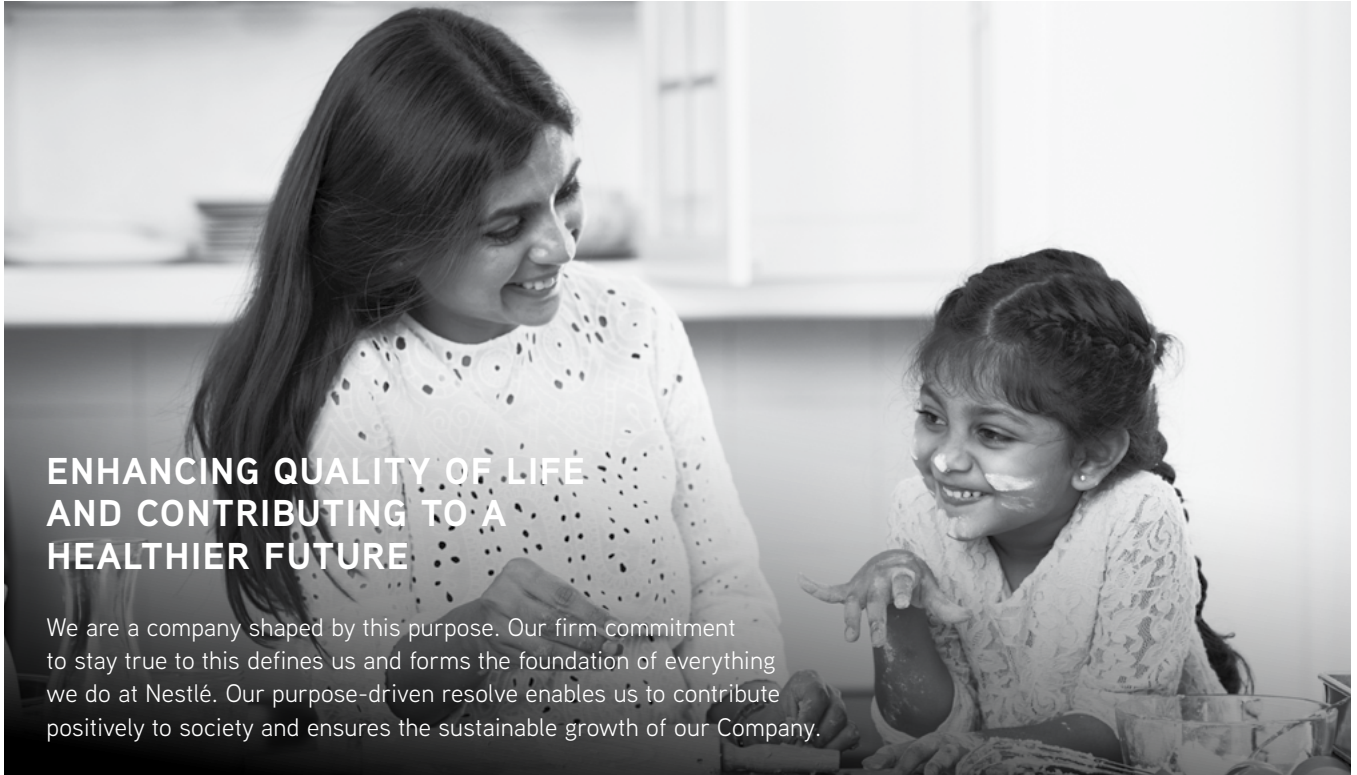
Good Food, Good Life



CORPORATE
GOVERNANCE &
FINANCIAL
REPORT
2018



Good Food, Good Life



ENHANCING QUALITY OF LIFE AND CONTRIBUTING TO A HEALTHIER FUTURE

We are a company shaped by this purpose. Our firm commitment to stay true to this defines us and forms the foundation of everything we do at Nestlé. Our purpose-driven resolve enables us to contribute positively to society and ensures the sustainable growth of our Company.

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CORPORATE GOVERNANCE OVERVIEW STATEMENT

LETTER FROM THE CHAIRMAN

DEAR SHAREHOLDERS,

During times of change, good governance is paramount. As a board, we continue to organise our work around major themes where we believe we can add value, themes such as governance, strategy, risk, performance, leadership and people, and sustainability. A summary of the key items covered by the Board throughout the year appears on pages 7 to 8, and I have detailed below our key areas of focus during 2018.

Looking back on 2018, the Board is satisfied that our governance practices have continued to perform well. We have been very focused throughout the year on the seamless implementation of our strategies and increasing operational efficiencies.



GOVERNANCE AS AN IMPERATIVE FOR VALUE-CREATION

The Board of Directors of Nestlé Malaysia Berhad (“Board”) is committed to creating a diverse governing body where different perspectives and attributes are respected and encouraged. In doing so, the Board attains an appropriate balance of knowledge, skills, experience, character, and independence to fulfil its governance role.

Leadership and Effectiveness

The Board consists of a strong team of Non-Executive Directors and Executive Directors drawn from successful international businesses and institutions with experience in corporate strategy, finance, education, human resource, insurance, medical, sales and marketing. Together with the Executive Directors, the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), the Directors bring with them strong independent viewpoints that provide valuable insights in aiding the Board’s decision

making process. The Board additionally invites members of the Management Team to attend a number of the Board’s sessions each year to bring insights and thoughts from across the business.

As is best practice, we continually assess and refresh the Board to ensure that we maintain an appropriate balance and diversity of skills and experience. On 27 April 2018, we welcomed Dato’ Dr. Nirmala Menon to the Board as an Independent Non-Executive Director, she brings with her a wealth of medical and insurance experience.

On 1 December 2018, Juan Aranols was appointed as the Executive Director and CEO following the resignation of Alois Hofbauer. Juan Aranols has vast experience in finance, strategic business and management from other Nestlé markets.

Following the transfer of Martin Peter Kruegel to another Nestlé market, Craig Connolly has been appointed as the Executive Director and CFO effective 1 February 2019.

CORPORATE GOVERNANCE OVERVIEW STATEMENT



With our new members, the Board continues to work well together and all Directors continue to make a significant contribution to the Company.

You will find the Profile of Directors on pages 46 to 52 of the Annual Review 2018.

Accountability

As a Board, we are accountable for the Company's successes and challenges. We aim to communicate to you in a transparent manner the steps we have taken to ensure that we have a clear oversight of the business and the work we have undertaken in respect of our strategy throughout the year. Our Audit Committee, led by Dato' Mohd Rafik bin Shah Mohamad, plays a key role in monitoring and evaluating our risk management processes, providing independent oversight of our external audit and internal control programmes, accounting policies, business change initiatives and in assisting the Board to report in a fair, balanced and understandable manner to our Shareholders.

During the year, the Board deliberated and approved the disposal of the Chilled Dairy Business and the Petaling Jaya factory as a going concern to Lactalis Trading Malaysia Sdn. Bhd. and Petaling Jaya Dairy Sdn. Bhd. (formerly known as Lactalis Manufacturing Malaysia Sdn. Bhd.) respectively.

Engagement

Throughout the year we continued to engage with our Shareholders including investors. We are committed to maintaining an open, transparent dialogue, keeping you updated on our strategy and receiving your inputs. Common with most large public companies, we have a wider range of stakeholders than just traditional investors, and our corporate affairs, corporate communications and sustainability teams have oversight of our sustainability and social impact initiatives, government and public affairs matters, and engagement with the community.

I am pleased to report that our good corporate governance and disclosure practices have been recognised by Bursa Malaysia Berhad through our selection as one of the companies qualified under the Green Lane Policy ("GLP"). Under the GLP, aside from complex circulars, all other circulars to shareholders are able to be issued without having the need to seek clearance from Bursa Malaysia Securities Berhad ("Bursa Securities"). Further, all complex circulars to Shareholders will be fast tracked by Bursa Securities through the GLP.

Conclusion

I hope this Report clearly sets out how your Company is run, and how we align governance and our Board agenda with the strategic direction of Nestlé. We always welcome questions or comments from Shareholders, either via our Company's website (www.nestle.com.my) or in person at our Annual General Meeting ("AGM").

Y.A.M. TAN SRI DATO' SERI SYED ANWAR JAMALULLAIL
CHAIRMAN

OUR GOVERNANCE AT A GLANCE

BOARD OF DIRECTORS



INDEPENDENT



NON-INDEPENDENT

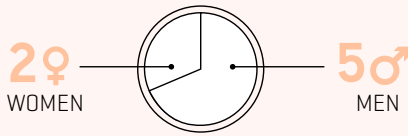


EXECUTIVE DIRECTORS

DIVERSITY OF AGE



GENDER DIVERSITY



DIVERSITY OF NATIONALITIES

MALAYSIAN	DUTCH
SPANISH	AUSTRALIAN

Board Roles and Their Responsibilities

Chairman and Chief Executive Officer

The roles of the Chairman and the CEO are separately held and the division of their responsibilities is clearly established and agreed by the Board, set out in writing in the Board Charter, to ensure that no one has unfettered powers of decision making.

The Chairman, is responsible for the operation and leadership of the Board, ensuring its effectiveness and setting its agenda.

The CEO, is responsible for leading and managing the Group's business within a set of authorities delegated by the Board and for the implementation of the Group strategy and policy.

Independent Directors

The primary responsibility of an Independent Non-Executive Director is to protect the interests of minority Shareholders and other stakeholders. The effective participation of an Independent Non-Executive Director serves to promote greater accountability and balance in the Board's decision-making process.

Non-Executive Directors

In addition to their responsibilities for strategy and business performance, the Non-Executive Directors play a key role in providing a solid foundation for good corporate governance and ensure that no individual or group dominates the Board's decision-making. They each occupy, or have occupied, senior positions in diverse industries, bringing valuable external perspectives to the Board's deliberations.

Company Secretary

The Company Secretary plays an advisory role to the Board in relation to the Company's policies and procedures and compliance with the relevant regulatory requirements, guidance and legislations as well as the principle of best corporate governance practices. The Directors are regularly updated by the Company Secretary on changes made to relevant legal and regulatory requirements, corporate governance practices, and areas relating to the duties, responsibilities and disclosure requirements of the Directors.

98%

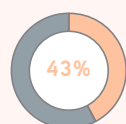
MEETING
ATTENDANCE
RATE

CORPORATE GOVERNANCE OVERVIEW STATEMENT

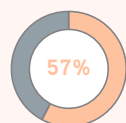
SKILL AND EXPERIENCE OF DIRECTORS

Financial Acumen	Governance	Legal	Public Policy and Regulatory
Strategy and Risk	Corporate Knowledge	Global Experience	Human Resources
Sales and Marketing	Medical and Health	Insurance	Investor Business

DIVERSITY OF TENURE



Less than 1 year



More than 6 years

Name of Director	Date of Appointment	Reclassification of directorship
Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail	25 February 2002	05 November 2004 20 February 2018
Dato' Mohd. Rafik Bin Shah Mohamad	01 June 2007	07 August 2008
Tan Sri Datuk (Dr.) Rafiah Binti Salim	17 April 2009	-
Dato' Frits van Dijk	27 April 2006	19 November 2013
Dato' Dr. Nirmala Menon	27 April 2018	-
Juan Aranols	01 December 2018	-
Craig Connolly	01 February 2019	-
Alessandro Monica (Alternate Director to Juan Aranols)	26 February 2019	-
Shahzad Umar (Alternate Director to Craig Connolly)	26 February 2019	-

Board and Board Committee Meeting Attendance 2018

Name of Members	Board	Audit Committee	Nomination Committee	Compensation Committee	Nomination and Compensation Committee
			(before 20 February 2018)	(after 20 February 2018)	(after 20 February 2018)
Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail	6/6	4/4	1/1	-	1/1
Dato' Mohd. Rafik Bin Shah Mohamad	6/6	4/4	-	1/1	1/1
Tan Sri Datuk (Dr.) Rafiah Binti Salim	5/6	4/4	-	1/1	1/1
Dato' Frits van Dijk	4/6	-	1/1	1/1	1/1
Dato' Dr. Nirmala Menon (appointed on 27 April 2018)	3/3	-	-	-	-
Juan Aranols (appointed on 1 December 2018)	-	-	-	-	-
Craig Connolly (appointed on 1 February 2019)	-	-	-	-	-
Tan Sri Datuk Yong Poh Kon (retired on 26 April 2018)	3/3	-	1/1	-	-
Toh Puan Dato' Seri Hajjah Dr. Aishah Ong (retired on 26 April 2018)	3/3	-	-	-	-
Alois Hofbauer (resigned on 30 November 2018)	6/6	-	-	1/1	-
Martin Peter Kruegel (resigned on 31 January 2019)	6/6	-	-	-	-

LEADERSHIP & EFFECTIVENESS

The Board

The Board is collectively responsible to the Company's Shareholders for the direction and oversight of the Company and its subsidiaries ("Group"), to ensure its sustainability and long-term success. The Board met regularly throughout the year to review the strategic objectives of the Group, to lead the Group within a framework of effective controls which enable risks to be assessed and managed, and to ensure that the Group's financial performance continues to thrive.

The Board has a Board Charter which, inter alia, provides guidance on Board composition, its roles, responsibilities and reserved powers, Board meetings and the ethical standards and integrity expected of the Board. The Board Charter is reviewed periodically and the last review was on 6 March 2019.

There are a number of matters which are specifically reserved for the Board's approval, these include:

Review, approve and adopt the Company's strategic plans and annual budgets.	01	Significant capital investment and disposal of material assets from the existing business to a third party.	05
Declaration of dividends, approval of financial statements, accounts and quarterly reports of the Company.	02	Increase or reduction of subsidiary's issued capital.	06
Acquisition, divestment or closure of business.	03	Any corporate restructuring not covered by the above-mentioned paragraphs.	07
Establishment of new substantial businesses.	04	The change of name of any company within the Group and establishment of any new company.	08

Specific responsibilities of the Board are delegated to the Board Committees, which operate with clearly defined Terms of Reference. For further details, please see the 'Board Committees' section. Authority for the operational management of the Group's business and its effective day-to-day running is delegated to the CEO. The CEO executes or further delegates to the Senior Management Team to ensure the progressive implementation of strategies.

Board Meetings

The Board held six meetings during the year. Members of the Management Team were invited, when appropriate, to attend Board meetings and to make presentations on the results and strategies of their business units or functions.

The attendance of the Directors at Board and Board Committee meetings in 2018 is shown on page 5.



The Board Charter is available on the Company's website at www.nestle.com.my.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
Leadership & Effectiveness

Board Committees

The Board has established two principal Board Committees, to which it has delegated certain responsibilities. These are the Audit Committee and the combined Nomination and Compensation Committee. The combined Nomination Committee and Compensation Committee was established on 20 February 2018 to replace the Nomination Committee and the Compensation Committee which then existed separately. The membership, responsibilities and activities of these Committees are described later in this Corporate Governance & Financial Report 2018. Membership of these Committees and the Terms of Reference are reviewed annually. Minutes of the Board Committee meetings are made available to the Directors on a timely basis. All Directors attend the AGM to answer questions relating to the Group or the work of the Board and the Board Committees.



The Terms of Reference for the Audit and the combined Nomination and Compensation Committees are available on the Company's website at www.nestle.com.my

KEY AREAS OF FOCUS FOR THE BOARD DURING THE YEAR

The table below summarises the key activities of the Board in 2018:

STRATEGY	<ul style="list-style-type: none"> • Review and approve the Group's strategy, plans and the implementation thereof. • Receive updates on the new National Distribution Centre. • Review and approve the divestment of the Chilled Dairy Business. • Review and approve the divestment of the Petaling Jaya factory.
FINANCIAL	<ul style="list-style-type: none"> • Review and approve the cumulative full year results for the financial year ended 31 December 2017 and approve the cumulative 1st half year results for the financial year ended 31 December 2018. • Review and approve the Director's Report and Audited Accounts for the financial year ended 31 December 2017. • Review and approve the Quarterly Results. • Review the report on the Company's quarterly performance and outlook for the year. • Approve dividend payments and review the solvency position of the Company. • Review and approve the financial results announcements. • Review of the Group's compliance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements"), Malaysian Accounting Standards Board and other relevant legal and regulatory requirements with regards to the quarterly and year-end financial statements. • Receive updates on the Recurrent Related Party Transactions by the Group. • Review and approve the general budget. • Review and approve the capital expenditure budget. • Receive updates on impact of the Sales and Services Tax 2018. • Receive updates on the quarterly Nestlé S.A. results.
RISK MANAGEMENT AND INTERNAL CONTROL	<ul style="list-style-type: none"> • Receive updates on Risk Enterprise Management, mitigating measures and updates. • Review the cyber security risks of the Group. • Review the regulatory landscape impacting the business. • Report on major litigation, claims and/or issues with substantial financial impact (if any). • Review and approve the Statement of Internal Control & Risk Management for the Annual Report. • Review the report of the Nestlé Internal Audit, the recommendations and management responses. • Review the report of the external auditor.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Leadership & Effectiveness

KEY AREAS OF FOCUS FOR THE BOARD DURING THE YEAR

<p>GOVERNANCE</p>	<ul style="list-style-type: none"> • Review the Company’s announcements to Bursa Malaysia. • Reaffirm and ratify the Directors’ Written Resolutions passed by the Board. • Note the Minutes of Meetings from the Audit Committee, Nomination Committee, Compensation Committee and the combined Nomination and Compensation Committee meetings, and approve the reports and recommendations. • Review and approve the Board Charter, Terms of Reference of the Audit Committee, Nomination and Compensation Committee. • Review and approve the Diversity Policy. • Review and approve the Remuneration Policy. • Review the composition and skills of the Board and Board Committees, the performance and effectiveness of the Board, Board Committees and individual Directors. • Review and approve the re-organisation of the Board Committees, appointment of the Chairman and members thereof. • Review and approve the re-designation of the Chairman of the Board to Non-Independent Non-Executive Director. • Review and approve the Board Improvement Programme pursuant to the findings of the Board Effectiveness Evaluation. • Review the Corporate Governance Diagnostic Gap assessment and evaluate the next steps therefrom. • Recommend the re-appointment of the Group’s external auditor for the financial year ending 31 December 2018 and for the Directors to fix their remuneration. • Note the amendments to the Listing Requirements (if any). • Review the submission of the semi-annual returns to Bursa Securities. • Review the compliance with the Malaysian Code on Corporate Governance and Companies Act 2016. • Receive updates from the Creating Shared Value Council. • Receive updates on WHO Code Compliance. • Review the effectiveness of the Board meetings. • Approve the Board Agenda for 2019.
<p>LEADERSHIP & PEOPLE</p>	<ul style="list-style-type: none"> • Review the Board succession plans, Board composition and Board Diversity (including gender, ethnicity/ cultural background and age diversity). • Review the term of office and assess the retirement of Directors by rotation, the retention of Directors and eligibility for re-election or retention. • Review the tenure of Directors. • Review the training for the Board. • Note the management development and succession plans for the Nestlé Leadership Team. • Review and approve the recommendation for the fees and benefits to be paid to the Non-Executive Directors. • Review the remuneration of the Executive Directors. • Review the remuneration of the Nestlé Leadership Team. • Receive updates on the changes to the Nestlé Leadership Team. • Review and approve the Remuneration Direction for 2019. • Review and approve the resignation and appointment of Directors and Alternate Directors. • Receive updates from the Group Human Resource Department.
<p>SHAREHOLDERS & ENGAGEMENT</p>	<ul style="list-style-type: none"> • Review and approve the Circular to Shareholders in relation to the Proposed Renewal of Shareholders’ Mandates and New Shareholders’ Mandates for Recurrent Related Party Transactions of a revenue or trading nature. • Preparation for the 2018 AGM and review of the e-voting procedure. • Receive updates on Quarterly Analyst/Investors briefings. • Review and approve the Annual Report 2017.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
Leadership & Effectiveness

Board Composition

The Board comprises seven Directors, a majority of which are Independent Directors. Two of the Directors are women. Besides the two Executive Directors, one Director who is the Chairman is Non-Independent Non-Executive and the remaining four Directors are Non-Executive and independent of management. This promotes critical review and control of the management processes. The Non-Executive members of the Board bring a wide range of business and financial experience to the Board, which contributes to the effective direction of the Group. Details of all Directors and their biographies are provided on pages 46 to 52 of the Annual Review 2018.

Commitment

None of the Directors hold more than five directorships in any listed issuer at any one time. This is not only in line with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements") but also to ensure that the Directors are able to discharge their responsibilities adequately. On an annual basis, the Directors will declare their directorship(s) in other companies and their time commitment to the Company.

In order to facilitate the Directors' planning, an annual meeting calendar is prepared and given to the Directors at least ten months in advance before the beginning of each new financial year. Whenever any direction or decisions are required expeditiously or urgently from the Board in addition to the scheduled meetings, special meetings of the Board are convened by the Company Secretary, after consultation with the Chairman. Decisions of the Board are made unanimously or by consensus. Where appropriate, decisions may be taken by way of Directors' Written Resolutions between the scheduled and special meetings. In 2018, six Written Resolutions ranging from administrative to operational issues were approved by the Directors.

The Board has set procedures in place for members to comply with, before accepting any new external Board appointment. The Chairman and the CEO will decide on the acceptance of the request and consider if there is a potential conflict in the pending appointment. It will also be tabled at the Nomination and Compensation Committee meeting notwithstanding that Paragraph 15.06 of the Listing Requirements allows

for a Director to sit on the Board of up to five listed issuers. Such notification of new directorship is expected to include an indication of time that will be spent on the new external appointment.

Election and Re-Election of Directors

In compliance with the Constitution of the Company, one third of the Directors shall retire by rotation at each AGM and that a Director who is appointed during the year shall retire at the next AGM. The Constitution further provides that all Directors shall retire from office at least once in every three years.

In addition, in line with the practices of Nestlé S.A., the major Shareholder of the Company, the Board had in 2016 adopted a limit of 72 years of age for the Directors, whereby the Director will have to retire at the AGM subsequent to turning 72.

Following the principles of MCCG, the tenure of an Independent Director is not to exceed a cumulative term of nine years. Upon the completion of the nine years, an Independent Director may continue to serve on the Board as a Non-Independent Director. However, if the Director meets the assessment as well as the relevant codes and regulations on independence and retention, and there is strong justification for the Director to continue with his or her tenure, the Board may retain the Independent Director beyond the nine years subject to the approval of the Shareholders at the AGM.

The Nomination and Compensation Committee reviews and assesses the performance of the Directors who are subject to re-election/retention at the AGM based on the criteria below, and submits its recommendation to the Board for the proposed re-election/retention being presented to the Shareholders for approval:

- Compliance with prescriptive requirements by regulators;
- Participation in Board and Board Committee meetings;
- Contribution to interaction;
- Performance and quality of input;
- Understanding of roles and responsibilities;
- Assessment of continued independence; and
- Providing value to the Board through unique, in-depth knowledge, experience and expertise.

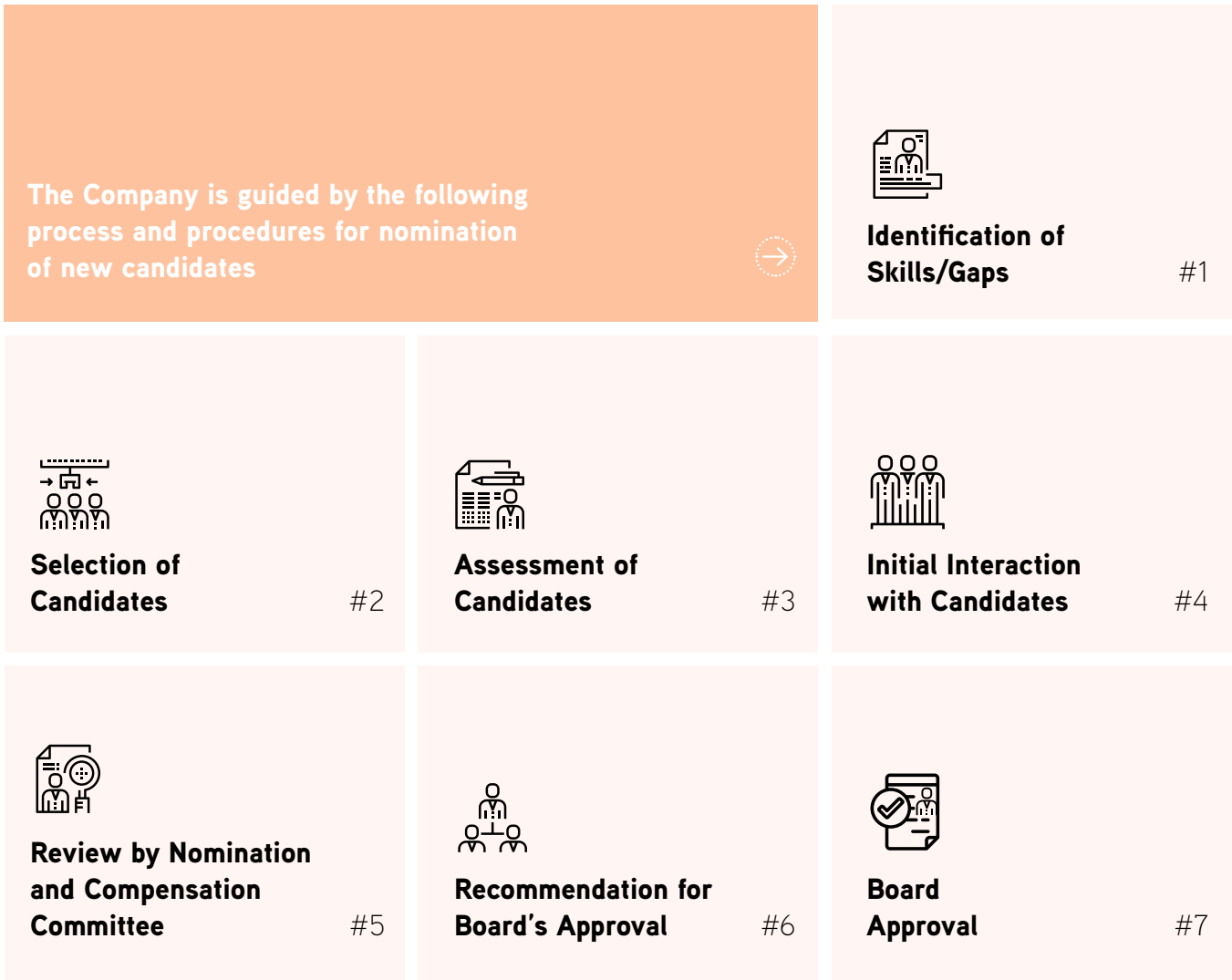
CORPORATE GOVERNANCE OVERVIEW STATEMENT

Leadership & Effectiveness

Appointments to the Board

The process for the nomination and appointment of Directors is an important process as it determines the composition, quality and competency of the Board. The Nomination and Compensation Committee is entrusted by the Board to review candidates for the appointment to the Board, and the Committee is guided by the Company’s Diversity Policy.

The Board leverages on the Directors’ network and industry database to source for potential candidates for appointment to the Board.



CORPORATE GOVERNANCE OVERVIEW STATEMENT
Leadership & Effectiveness

The Nomination and Compensation Committee in making its recommendation on candidates to the Board will consider the candidate’s:

- Skill, knowledge, competencies, expertise and experience
 - Professionalism
 - Integrity
 - Commitment, contributions, potential and performance
 - Industry standing
- In the case of candidates for the position of Independent Non-Executive Directors, the Nomination and Compensation Committee will also evaluate the candidate’s ability to discharge such responsibilities/ functions as expected from an Independent Non-Executive Director

Board Training and Induction

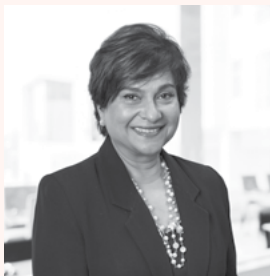
The Chairman, with the support of the Company Secretary, is responsible for the induction of new Directors and the continuous training and development of Directors in the areas of Director’s roles, responsibilities, obligations, corporate governance and the Group’s business operation.

Directors receive a significant bespoke induction programme and a range of information about the Group when they join the Board. The induction includes a series of meetings with the Nestlé Leadership Team to learn about the businesses and functions, and the current issues pertaining to the Group. A factory visit is also organised.

Upon the appointment of new Directors, the Company will also arrange for the Directors to attend the Mandatory Accreditation Programme (“MAP”). In accordance with the Listing Requirements (Paragraph 15.08 and Practice Note 5), all directors appointed to the boards of public listed companies are required to attend the MAP. Dato’ Dr. Nirmala Menon, Juan Aranols, Craig Connolly and Alessandro Monica (Alternate Director to Juan Aranols) have all attended the MAP.

The induction programme for Dato’ Dr. Nirmala Menon, our most recently appointed Non-Executive Director included time with the Nestlé Leadership Team, as well as a site visit to a factory and exposure to another Nestlé Market abroad. The newly appointed CEO and CFO have also gone through an extensive induction program.

GOVERNANCE IN ACTION



THE BOARD INDUCTION OF DATO’ DR. NIRMALA MENON

INDUCTION SESSIONS WITH THE NESTLÉ LEADERSHIP TEAM WERE HELD ON

4 JUNE

7 JUNE

29 OCTOBER

“ IT IS EXHILARATING TO BE PART OF A BRAND THAT WE ARE SO FAMILIAR WITH. ”

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Leadership & Effectiveness

Further, the Directors are encouraged to attend continuous education programmes, talks, seminars, workshops and conferences to ensure that the Directors are kept abreast with new developments in the business environment, corporate governance and enhance their skills and knowledge. On an on-going basis, the Company identifies conferences and seminars which are beneficial for the Directors to attend. The Directors also receive face-to-face briefings, training and presentations on matters which are relevant to the Group's operations.

In addition, the Company continues to provide reading materials to the Directors on key corporate governance developments, any salient changes to the Listing Requirements, laws and regulations, and on matters pertaining to the latest development in areas relating to the Directors' roles and responsibilities. The Directors are also briefed on matters relevant to the operations

and activities of the Company, the Company's initiatives on Creating Shared Value ("CSV") and efforts on sustainability by the CSV Council. They are also encouraged to attend appropriate trainings on subject matters that aid them in the discharge of their duties and responsibilities as Directors.

In 2018, the Company organised a Board trip to Japan where the Board was exposed to the different business models of Nestlé Japan. Visits were also arranged to, amongst others, Nestlé's global digital partner, the NESCAFÉ and KIT KAT stores to learn more about different business concepts in Japan.

During the year under review, the Directors and the Company Secretary, attended the following training programmes to further enhance their knowledge and enable them to discharge their duties and responsibilities more effectively:

NAME OF DIRECTOR	INTERNAL TRAINING	EXTERNAL TRAINING
Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail	<p>In the areas of:</p>	<ul style="list-style-type: none"> • Malaysian Code of Corporate Governance. • ACI 10th Annual Airport Economics & Finance Conference & Exhibition. • Cyber Security Awareness. • Khazanah Megatrends Forum 2018.
Dato' Mohd Rafik Bin Shah Mohamad	<ul style="list-style-type: none"> • Social Media – Crisis and Issue Management. • Foods Business Unit. • Creating Shared Value. • Group Human Resource. • Nestlé Distribution Center. • Nestlé Japan's business landscape. • Nestlé Global Digital Partner. 	<ul style="list-style-type: none"> • Malaysian Code of Corporate Governance. • Corporate Governance Briefing Sessions: MSSG Reporting & CG Guide. • Audit Committee Conference 2018. • Launch of Institute of Corporate Directors Malaysia. • Khazanah Megatrends Forum 2018. • Breakfast Series: Non-Financials - Does It Matter.
Tan Sri Datuk (Dr.) Rafiah Binti Salim		<ul style="list-style-type: none"> • Malaysian Code of Corporate Governance. • Audit Committee Conference 2018.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
Leadership & Effectiveness

NAME OF DIRECTOR	INTERNAL TRAINING	EXTERNAL TRAINING
Dato' Frits van Dijk Alois Hofbauer (resigned on 30 November 2018)	<p>In the areas of:</p> <ul style="list-style-type: none"> • Social Media – Crisis and Issue Management. • Foods Business Unit. • Creating Shared Value. • Group Human Resource. • Nestlé Distribution Center. • Nestlé Japan's business landscape. • Nestlé Global Digital Partner. 	<ul style="list-style-type: none"> • Malaysian Code of Corporate Governance.
Dato' Dr. Nirmala Menon	<p>In the areas of:</p> <ul style="list-style-type: none"> • Induction Programme (Business Units, Function & Operations) • Creating Shared Value. • Group Human Resource. • Nestlé Distribution Center. • Nestlé Japan's business landscape. • Induction and Factory Visit (Shah Alam Complex) • Nestlé Global Digital Partner. 	<ul style="list-style-type: none"> • Cyber Security Awareness.
Martin Peter Kruegel (resigned on 31 January 2019)	<p>In the areas of:</p> <ul style="list-style-type: none"> • Social Media – Crisis and Issue Management. • Foods Business Unit. • Creating Shared Value. • Group Human Resource. • Nestlé Distribution Center. 	<ul style="list-style-type: none"> • Malaysian Code of Corporate Governance.
Tengku Ida Adura (Company Secretary)	<p>In the areas of:</p> <ul style="list-style-type: none"> • Social Media-Crisis and Issue Management. • Foods Business Unit. • Creating Shared Value. • Group Human Resource. • Nestlé Distribution Center. • Nestlé Japan's business landscape. • Nestlé Global Digital Partner. 	<ul style="list-style-type: none"> • Malaysian Code of Corporate Governance. • MCGG & Bursa's Listing Requirements towards meaningful disclosure. • ESG Seminar for FTSE4Good Bursa Malaysian Index. • MCGG & Bursa's Listing Requirements Application, Disclosure and Reporting Expectations for Principle B & C. • Sustainability Reporting Workshops for Company Secretaries 2018. • Workshop on MBRS Practical aspects & hands on Training. • Competition Law Asia Conference 2018.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Leadership & Effectiveness

Information Flow

In addition to Board meetings, the Board is informed or updated on important issues and major development of matters including those discussed in the Board Meetings, by the Management Team and the Company Secretary. Briefings may be arranged to further discuss important issues.

The Chairman is responsible for ensuring that all Directors are properly briefed on issues arising at Board meetings and that they have full and timely access to relevant information. To enable the Board to discharge its duties, all Directors receive appropriate information, including briefing papers distributed in advance of the Board meetings.

At least 14 days prior to each Board and Board Committee meeting, a notice and the structured agenda, as approved by the respective Chairman of the Board or the Board Committees, will be issued by the Company Secretary to the respective members and attendees. The Board and Board Committee papers, are generally forwarded to the Directors at least five business days prior to the Board or Board Committee meetings for the Directors to be prepared to deal with matters to be discussed at the meetings and to enable the Board and Board Committees to make effective decisions.

Presentations to the Board and the Board Committees are prepared and delivered in a manner that ensures clear and adequate understanding of the subject matter. In addition to that, reading materials on the subject matter, if any, are also prepared and generally circulated at least five business days prior to the meetings to assist the Directors in having an understanding of the subject matter. For any urgent matters, and for additional documents that are sent less than five business days, the Management Team will take the Board through the documents for a more detailed explanation. The Board firmly believes that effective deliberation and decision making process

is highly dependent on the quality of information furnished by the Management Team. As part of the Board's initiative to promote environmental sustainability and efficiencies, the Board has adopted paperless meetings through the usage of electronic devices which also allows immediate access to materials. From time-to-time, whenever the Board requires any information or updates from members of the Management Team, the relevant member of the Management Team is invited to attend meetings of the Board or the Board Committees. Professional advisers may also be invited to attend the Board or the Board Committee meetings, as the case may be, to provide additional insights and professional views, advice and explanation on specific items on the meeting agenda. All Directors have direct access to the Management Team and have unrestricted access to all information and documents relevant to the business and affairs of the Group.

The Board also aims to ensure that effective communication with our Shareholders and investors is at all times maintained to enable them to make informed investment decisions, and for their issues and concerns to be understood and considered.

Evaluating The Board

A key objective of the Board evaluation is to ensure that the Board is functioning well. This includes gaining an understanding of the issues that the Board thinks warrant greater focus, as well as determining areas where additional competence is needed within the Board and whether the Board composition is appropriate.

The evaluation also serves as guidance for the work of the Nomination and Compensation Committee as well as a reference point for the Board to evaluate if a balanced, diversified, skilled Board across a wide range of areas and expertise is consistently maintained. It also addresses the gaps and training areas for the Board.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
Leadership & Effectiveness

The annual Board Effectiveness Evaluation for 2018 was facilitated by an external party, Tricor Corporate Services Sdn. Bhd., to evaluate and assess amongst others, the Board as a whole, the Board Committees, the individual Directors, the independence of the individual Directors and the Board's skills matrix.

The results of the Board Effectiveness Evaluation will be used as a basis for a refined Board Improvement Programme to be implemented in 2019.

The Board Improvement Programme is a framework which identified further improvements and enhancements to be implemented pursuant to the findings of the Board Effectiveness Evaluation. Some of the key areas to be addressed by the Board Improvement Programme includes exposure to trends in the food industry, increased engagement with stakeholders, update of legal and regulatory landscape affecting the business and increased knowledge on digital economy, e-commerce and social media.


Overall, the results of the Board Effectiveness Evaluation have been positive based on the responses and feedback received.

Board Remuneration

The Board adopted a remuneration policy which sets out the criteria to determine Director's remuneration, these include:

- Level of responsibility;
- Expertise;
- Complexity of the Company's activities;
- Industry benchmarks against similar companies;
- Market practice; and
- Executive Directors' remuneration as guided by Nestlé S.A.

Following a benchmarking exercise conducted in 2017, the Company has agreed to increase the Board fees for 2018 subject to Shareholders' approval at the 2019 AGM.

 The Remuneration Policy is available on the Company's website at www.nestle.com.my

Procedure

The Nomination and Compensation Committee recommends to the Board on the proposed fees to be paid to each Director based on the Remuneration Policy as approved by the Board. It is the responsibility of the entire Board to decide on the proposed quantum for each Director based on their roles and responsibilities.

The composition of the remuneration for the Non-Executive Directors are as follows:

A FEES FOR ACTING AS A DIRECTOR

A fixed fee is allocated to each Non-Executive Director, a fee premium is allocated to the Chairman of the Board in view of additional accountabilities and responsibilities assumed by the Chairman.

B FEES FOR ASSUMING ADDITIONAL RESPONSIBILITIES

Additional fees are allocated to Non-Executive Directors who assumed more responsibilities via their appointments in various Board Committees. A fee premium is allocated to the Chairman of the respective Board Committees in view of additional accountabilities and responsibilities assumed by them.

C MEETING ATTENDANCE ALLOWANCE

An attendance allowance to compensate the Non-Executive Directors for their personal expenses to attend the meetings of the Board and Board Committees.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Leadership & Effectiveness

The Non-Executive Directors' Fees for a particular financial year are tabled at the next AGM following the end of the financial year for Shareholders' approval prior to the same being paid to the Non-Executive Directors.

A meeting allowance of RM2,000 will be paid to each Non-Executive Director for attendance at each Board and Board Committee meeting.

The breakdown of the Directors' remuneration paid in 2018 is as follows:

Name	Fees ²	Salary ³	Emoluments & Benefits ⁴	Total
	RM	RM	RM	RM
RM, in Gross¹				
Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail	335,000	0	69,000	404,000
Dato' Mohd Rafik Bin Shah Mohamad	175,000	0	24,000	199,000
Tan Sri Datuk [Dr.] Rafiah Binti Salim	165,000	0	22,000	187,000
Dato' Frits van Dijk	150,000	0	14,000	164,000
Dato' Dr. Nirmala Menon (appointed on 27 April 2018)	0	0	6,000	6,000
Tan Sri Datuk Yong Poh Kon (retired on 26 April 2018)	135,000	0	8,000	143,000
Toh Puan Dato' Seri Hajjah Dr. Aishah Ong (retired on 26 April 2018)	120,000	0	6,000	126,000
Juan Aranols (appointed on 1 December 2018)	0	107,084	313,648	420,732
Alois Hofbauer (resigned on 30 November 2018)	0	1,176,600	4,969,365	6,145,965
Martin Peter Kruegel (resigned on 31 January 2019)	0	733,452	1,386,904	2,120,356
TOTAL	1,080,000	2,017,136	6,818,917	9,916,053

¹ Numbers are provided before tax.

² Fees paid to Non-Executive Directors.

³ Salary paid to Executive Directors.

⁴ Benefits and other emoluments include bonuses, allowances, provisions for leave passage, attendance fees, club membership and other benefits and allowances.

Senior Manager's Remuneration

The Company takes guidance from Nestlé S.A. to determine the level of remuneration that the Senior Managers of the Company receive. Such guidance ensures that remuneration packages are set based on industry standards, reflects a Senior Manager's roles, responsibilities, level of skills and experience, and motivates performance.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

ACCOUNTABILITY

Ensuring Quality in Financial Reporting

The Board, which is responsible for overseeing the preparation of annual financial statements, receives quarterly management accounts and updates on the Company's performance, financial position and prospects. In preparing the financial statements for the year ended 31 December 2018, the Board adopted appropriate accounting policies consistently, made prudent and reasonable judgements and estimates, and ensured that the financial statements were prepared on a going concern basis and showed a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of the Group's consolidated financial performance and cash flows for the year.

Primarily through the Audit Committee, the Board reviews the most important accounting principles applied by the Group in financial reporting, as well as major changes in these principles. The Audit Committee also reviews reports regarding internal control and financial reporting processes, as well as internal audit reports submitted by the Group's internal audit function, known as the Nestlé Internal Audit.

The external auditor attends all meetings of the Audit Committee. At least twice a year, the external auditor attends meetings with the Audit Committee without the presence of the Management Team to raise concerns, if any. In addition, at least once a year, during the evaluation of the performance and independence of the external auditor, the Audit Committee will meet the Management Team without the presence of the external auditor. The Audit Committee reports to the Board after each of its meetings. Minutes are taken at all Audit Committee meetings and are made available to all Board members and to the auditors.

An annual assessment of the objectivity, independence, performance, experience, competency and quality of service delivery of the Group's external auditor was conducted by the Nestlé Internal Audit and the Audit Committee. The assessment was made in accordance with the established policy practiced by the Company to assess the suitability and independence of the external auditor. No major gaps were identified and the Audit Committee was satisfied with the results of the assessment. The Audit Committee then proceeded to make the necessary recommendation to the Board.

The Audit Committee has obtained written assurance from the external auditor confirming its independence in accordance with the terms of relevant professional and regulatory requirements.

On 26 February 2019, the Board approved the Audit Committee's recommendation for the re-appointment of the external auditor, KPMG PLT for Shareholders' approval at the 2019 AGM.

Risk Management and Internal Controls

The Board acknowledges its overall responsibility for monitoring the Group's risk management and internal control systems in order to facilitate the identification, assessment and management of risks, and the protection of Shareholders' investments and the Group's assets.

The Directors confirm that there is a process for identifying, evaluating and managing the risks faced by the Group and the operational effectiveness of the related controls, which has been in place for the year under review and up to the date of approval of the annual report and accounts. They also confirm that they have regularly monitored the effectiveness of the risk management and internal control systems (which cover all material controls including financial, operational and compliance controls) utilising the review process set out below:

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Accountability

Standards

There are guidelines on the requirements for health, safety and environmental standards. There are also guidelines on the level of internal control that each of the department should exercise over specified processes. Each business has developed and documented policies and procedures to comply with the control standards established, including procedures for monitoring compliance and taking corrective action.

High Level Controls

All businesses prepare annual operating plans and budgets which are updated regularly. Performance against budget is monitored at operational level and centrally, with variances being reported promptly. The cash position at Group and business level is monitored constantly and variances from expected levels are investigated thoroughly. Clearly defined guidelines have been established for capital expenditure and investment decisions. These include the preparation of budgets, appraisal and review procedures and delegated authority levels.

Internal Audit (known as Nestlé Internal Audit)

The Group's businesses employ internal auditors with skills and experience relevant to the operation of each business. All of the internal audit activities are co-ordinated centrally and are accountable to the Audit Committee.

All Group businesses are required to comply with the Group's financial control framework that sets out the minimum control standards. A key function of Nestlé Internal Audit is to undertake audits to ensure compliance with the financial control framework and make recommendations for improvement in controls where appropriate. The Nestlé Internal Audit team also conducts regular reviews to ensure that risk management procedures and controls are observed. The Audit Committee receives regular reports on the results of internal audit's work and monitors the status of recommendations arising. It also regularly reviews the adequacy, qualifications and experience of the Nestlé Internal Audit resources, and the nature and scope of the internal audit activities in the overall context of the Group's risk management system.

Financial Reporting

Detailed management accounts are prepared every calendar month, consolidated in a single system and reviewed by Senior Management. They include a comprehensive set of financial reports and key performance indicators covering commercial, operational, environmental and people issues. Performance against budgets and forecasts are discussed regularly at meetings between the operations and the Management Team, and quarterly at Board meetings. The adequacy and suitability of key performance indicators are reviewed regularly.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
Accountability

The Board's Professionalism

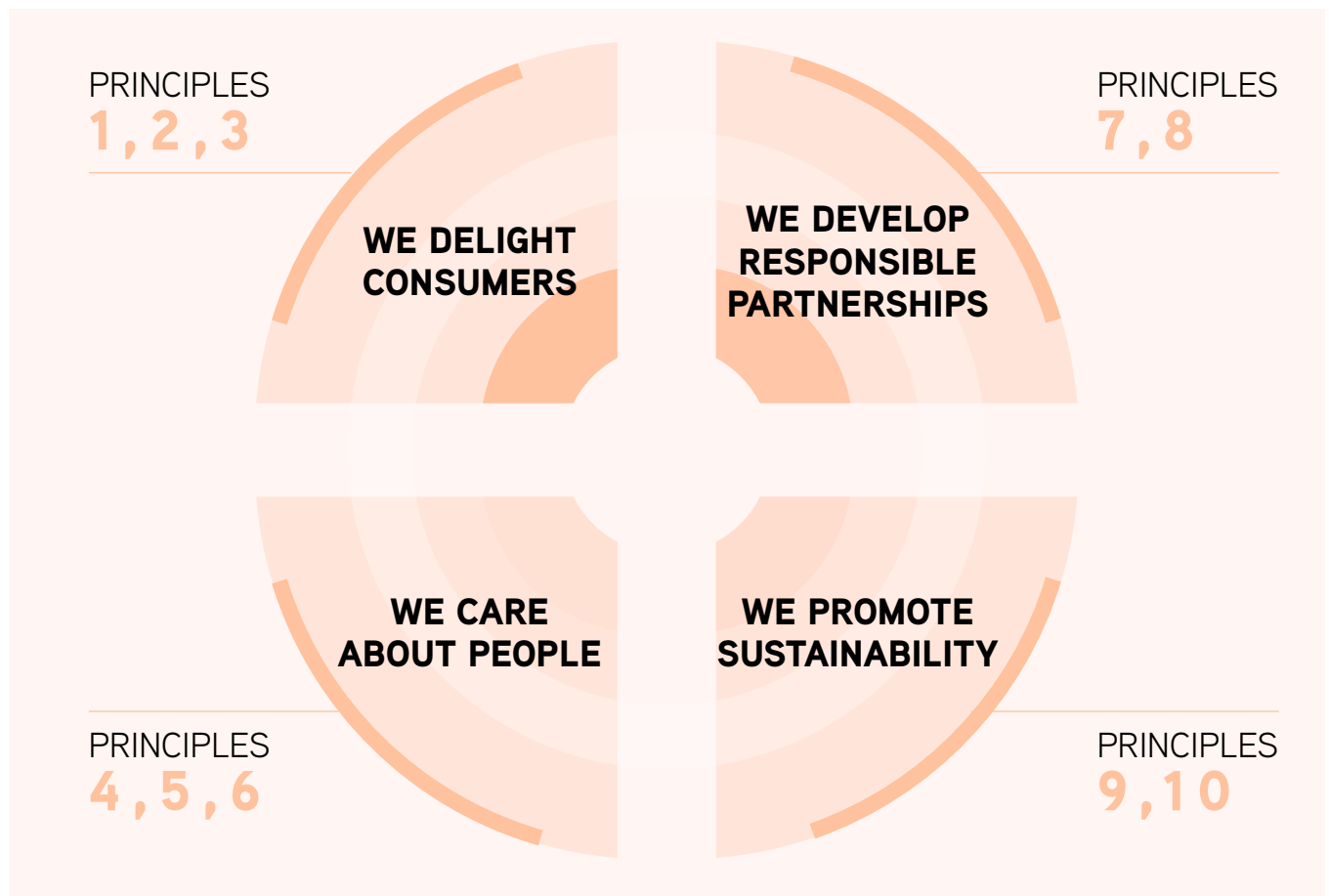
Code of Conduct

In discharging its responsibilities, the Board is guided by the code of conduct and principles contained in the following internal policies/guidelines:

Nestlé Corporate Business Principles

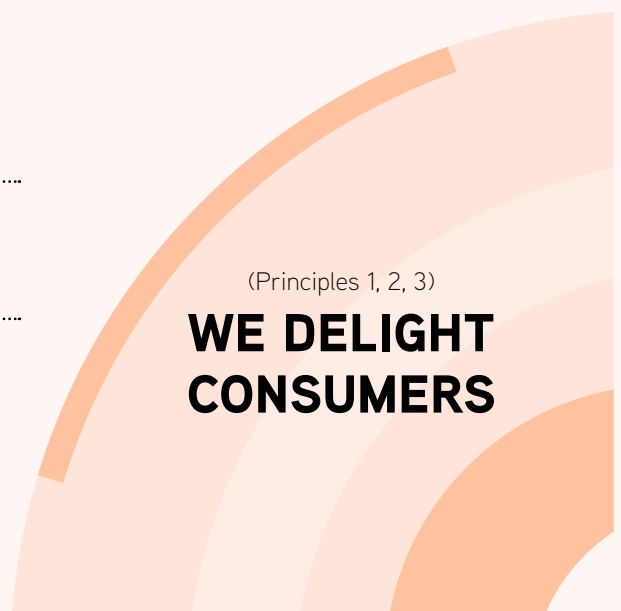
The Board and all employees of the Group are guided by the Nestlé Corporate Business Principles (“NCBP”) that cover key issues that underpin compliance, sustainability and corporate social responsibilities known as Creating Shared Values (“CSV”), catered to fit the unique characteristics of the Group.

NCBP also focuses on work place practices and ethics, employee relations and employee human rights. The ten principles contained in the NCBP, set out a common approach to the development of policies and procedures taking into account labour laws and practice, political, economic and cultural aspects. These principles can be summarised as follows:



NESTLÉ PRINCIPLES AND POLICIES MAP

CONSUMER	1	<p>Nutrition, Health and Wellness</p> <ul style="list-style-type: none"> Nestlé Principles on Nutrition, Health and Wellness
	2	<p>Quality Assurance and Product Safety</p> <ul style="list-style-type: none"> Nestlé Quality Policy Nestlé Nutrition Quality Policy
	3	<p>Consumer Communication</p> <ul style="list-style-type: none"> Nestlé Consumer Communication Principles Nestlé Policy on Nutrition and Health Claims Nestlé Nutritional Profiling System Nestlé Nutritional Compass The World Health Organization (“WHO”) International Code of Marketing of Breast-milk Substitutes (“WHO Code”) Nestlé Privacy Policy
HUMAN RIGHTS AND LABOUR PRACTICES	4	<p>Human Rights in Our Business Activities</p> <ul style="list-style-type: none"> United Nations Global Compact International Labour Organisation (“ILO”) Conventions 87, 138, 182 United Nations Convention of the Rights of the Child: Article 32 The Organisation for Economic Co-operation and Development (“OECD”) Guidelines for Multinational Enterprises 2000 ILO Declaration on Multinational Enterprises 2006
	5	<p>Leadership and personal responsibility</p> <ul style="list-style-type: none"> Nestlé Management and Leadership Principles Nestlé Code of Business Conduct Nestlé Human Resources Policy
OUR PEOPLE	6	<p>Safety and health at work</p> <ul style="list-style-type: none"> Nestlé Policy on Safety and Health at Work



CORPORATE GOVERNANCE OVERVIEW STATEMENT
Accountability

(Principles 7, 8)

WE DEVELOP RESPONSIBLE PARTNERSHIPS

Supplier and Customer Relations

- Nestlé Responsible Sourcing Standard

7

SUPPLIER AND CUSTOMER

Agriculture and Rural Development

- Nestlé Policy on Environmental Sustainability

8

(Principles 9, 10)

WE PROMOTE SUSTAINABILITY

Environmental Sustainability

- Nestlé Policy on Environmental Sustainability

9

THE ENVIRONMENT

Water

- Nestlé Policy on Environmental Sustainability
- Nestlé Commitments on Water

10



All the above principles, code, guidelines and policy are made readily available to all employees and Directors. Further, the Nestlé Corporate Business Principles, the Nestlé Code of Business Conduct, the Nestlé Malaysia Anti-Corruption Gifts & Entertainment Guidelines and Nestlé Malaysia Charter: Infant Formula Policy are also made available on the Company's website at www.nestle.com.my.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Accountability

Nestlé Code of Business Conduct

The Nestlé Code of Business Conduct (“NCBC”) outlines the conduct and responsibilities of the Board and all employees. The Directors of the Company have a duty to declare immediately to the Board should they be interested in any transaction to be entered into directly or indirectly with the Company or any of its subsidiaries.

Examples of provisions in the NCBC include compliance with the laws, rules and regulations, avoiding situations where there are conflicts of interest, timely declaration of interests in competing businesses, prohibition on the use of inside information, corporate opportunities, insider trading, whistleblowing and prohibition on corrupt activities.

The NCBC is premised on three basic principles, which are:

- (a) Avoidance of any conduct that could damage or create risk to the Group or its reputation;
- (b) Legal compliance and honesty, to place the Group’s interests ahead of personal or other interests; and
- (c) Guidance on how the Group’s employees should behave.

Nestlé Malaysia Anti-Corruption, Gifts & Entertainment Guidelines

The Group strengthened its position against corruption in its new Nestlé Malaysia Anti-Corruption, Gifts & Entertainment Guidelines (Guidelines), launched in 2016. The objective of the Guidelines is to capture specific limits on gifts, entertainment and procedures on other high-risk areas. Thereafter, the Group carried out extensive engagements, training and communication activities for employees, third party suppliers and customers.

Agreements with suppliers, customers and employees have been amended to include clauses which prohibit corrupt practices.

In 2018, the Group continued with training sessions to existing and new employees to increase awareness on the Guidelines. In order to emphasise the Group’s stance against corruption, the Group launched a video to all employees with a strong message by the CEO against corruption, calling for all to “do the right thing” at all times.

Additional Compliance Initiatives

I. Nestlé Malaysia Charter: Infant Formula Policy

The Group strongly supports the WHO Code that aims to protect, promote and support breastfeeding. In this respect, the Group has adopted the Nestlé Malaysia Charter: Infant Formula Policy to ensure, among others, that its efforts will respect a mother’s freedom of choice and will not in any way undermine the superiority of breast milk.

The Group strongly believes that breastfeeding is the best for babies. We support the WHO Code and have implemented strong procedures to ensure that the Group complies with it.

II. WHO Code Ombudsperson System

The Group has an internal WHO Code Ombudsperson System in place to monitor and strengthen our implementation of the WHO Code.

The system allows any of the Group’s employees to alert the Group via the appointed Ombudsperson of potential WHO Code violations or raise concerns with regards to the marketing of Infant Nutrition products in a confidential way and outside the line management structure.

III. Nestlé Responsible Sourcing Standard

The Nestlé Responsible Sourcing Standard describes the requirements and ways of working that the Group apply together with upstream supply chain third parties to ensure sustainable long-term supply and to achieve the Group’s purpose, especially to continually reduce any impact on the planet’s resources. This document sets out ways of working with regards to sourcing and production for the Group supply chain tiers, from the Group to suppliers, through intermediaries and all the way back to the origins of the goods and services purchased.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
Accountability

The Nestlé Responsible Sourcing Standard replaces previous versions of the Nestlé Supplier Code, the Nestlé Responsible Sourcing Guideline and the Nestlé Commitment on the Responsible Use of Materials from Agricultural Origin. It contributes to the implementation of the Group's commitment to the OECD Guidelines for Multinational Enterprises, the Core Conventions of the International Labour Organization ("ILO"), and the United Nations Sustainable Development Goals ("SDGs").

IV. Personal Data Protection

In light of the Personal Data Protection Act 2010 ("PDPA") which came into effect in November 2013, the Group launched its new Nestlé Malaysia Personal Data Guidelines which outlines the requirements for the Group and its employees in handling and using personal data in compliance with the PDPA.

In 2018, the Group carried out extensive awareness programs which included numerous engagements and trainings for employees involved in handling and using personal data.

These trainings were aimed to impart relevant knowledge and to raise awareness amongst employees on the importance of complying with the PDPA and the Nestlé Malaysia Personal Data Guidelines and not to engage in any conduct that transgresses any privacy laws and policies.

The Group continuously keeps its privacy practices updated with continuous engagement with the relevant business units and functions which process personal data.

V. Compliance Framework Structure

The Compliance Steering Committee is responsible for setting the direction of the Group's Compliance Framework and to support the successful execution of a Compliance Programme.

The Group's Compliance Framework is further supported by the Compliance Champions Committee which is made up of representatives from the various business units and functions and mostly represented by the respective Business Controllers.

The Compliance Champions are responsible to oversee compliance within their respective business units and functions, and to implement the Compliance Programme.

(a) Compliance Programme

Under the Compliance Programme, the Compliance Champions conduct regular compliance documents review and compliance gaps assessments in their respective business units and functions. The Compliance Champions then ensure that any compliance gaps are resolved. The Compliance Champions also carry out various activities to increase awareness and these activities are essential towards instilling a compliance culture in the Group.

(b) Compliance Committees Meetings

For the financial year ended 31 December 2018, three meetings of the Compliance Steering Committee were convened whereby various initiatives and directions under the Compliance Programme were presented by the Market Compliance Officer and further deliberated and endorsed by the Compliance Steering Committee before cascading for implementation by the Market Compliance Officer and the Compliance Champions Committee. There were four meetings convened by the Compliance Champions Committee. The Compliance Champions Committee meetings were chaired by the CFO and, apart from sharing the direction and endorsements of the Compliance Steering Committee, the agenda of the meetings typically involve discussions on refining the Compliance Programme's initiatives and tools, updating the progress of various compliance initiatives and the status of various plans.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Accountability

VI. Consumers

Guided by the Nestlé Quality Policy and the Nestlé Consumer Communication Principles, the Group's products and brands are developed, manufactured and marketed in a responsible manner. In order to achieve the Group's vision of uncompromising quality, the Group maintains one toll free consumer hotline 1 800 88 3433 for all its products with the objective of effectively attending and responding to consumer complaints and feedback in a timely manner.

VII. Competition Law and Antitrust Policy

Guided by the Nestlé Antitrust Policy and since the coming into force of the Competition Act 2010 on 1 January 2012, the Group has continuously implemented its own competition training programmes which are covered in induction training programmes for its new employees as well as specific competition law training programmes tailored to relevant employees from various business units and functions.

In 2018, specific training programmes were provided to the sales team and business units on competition issues. The trainings are business centric and relevant to their respective functions.

In addition to the various training programmes implemented, the Group also rolled-out its own Competition Law Compliance Manual to serve as a basic guide to provide its employees with essential knowledge on competition laws and to identify potential competition issues.

The Group will continue to roll-out compliance programmes to ensure that the Group's existing business transactions and practices continue to adhere to current competition laws and are conducted within the framework of the Nestlé Antitrust Policy.

VIII. Business Ethics and Fraud Committee ("BEFC")

A BEFC is in place to review all complaints and/or allegations lodged via the Non-Compliance Hotline, or any other avenues (e.g. phone, letter, e-mail). This Committee, consisting of senior managers of the Group and chaired by the CEO, ensures an investigation is conducted when needed, reviews the investigation report and decides on the next course of action based on the nature of the violation. Reports and updates are presented and discussed at the Audit Committee meetings prior to it being presented to the Board.

Whistleblowing Policy

One of the key provisions in the NCBC is reporting on illegal or unacceptable behaviour and/or non-compliant conduct. The Board acknowledges that misconduct such as violation of laws, rules, regulations, production fault, fraud, health and safety violations or corruption are usually known first by the people who work in or with the Group. An early warning system such as a whistleblowing policy and procedure can help the Group detect wrongdoings and alert the Group to take corrective actions before a problem becomes a crisis.

A whistleblowing system strengthens and supports good management and at the same time demonstrates accountability, provides good risk management and sound corporate governance practices. The Company believes that having a whistleblowing policy in place increases investors' confidence in the Company.




The Group's employees are strongly encouraged to speak up and raise any suspicions of wrongdoing, malpractice or impropriety in the management of the Group's business by bringing up these issues with their line managers or through the internal whistleblowing procedures which were implemented in 2011.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
Accountability

The internal whistleblowing procedures are an integral part of a comprehensive framework which outlines when, how and to whom a concern may be properly raised, distinguishes a concern from a personal grievance, and allows the whistleblower the opportunity to raise a concern outside his or her management line.

The identity of the whistleblower is also safeguarded at all times. An employee who in good faith believes that it is his or her duty to report suspected misconduct and who discloses such information is protected by the Group from coercion, retaliation or reprisal in connection with his or her cooperation, which is also provided by the Whistleblower Protection Act 2010. Employees are assured that all reports will be properly investigated and treated in confidence by the BEFC.

For this purpose, the Non-Compliance Hotline is managed by an independent third party to respect anonymity and protect a whistleblower. Any employee, supplier or third party may call the hotline, write an e-mail or post a message on the website on any alleged non-compliance situation in the Group as illustrated in the diagram below:

 TELEPHONE	 EMAIL	 INTERNET
<p>1 800-88-4307</p> <p>Dial 1800-88-4307 (Toll Free Number)</p> <p>Key in Access Code 41830 (Select language)</p> <p>State your concern(s) and it will be transcribed for you. (You will be given a case number)</p> <p>Redial 1800-88-4307 and insert case number to check on the "Status"</p>	<p>Noncompliance.mailbox@my.nestle.com</p> <p>Write an email detailing your concern(s)</p> <p>Send email directly to Noncompliance.mailbox@my.nestle.com</p> <p>Your email will be replied along with the updated "Status" of the case</p>	<p>www.speakupfeedback.eu/web/nm34k/my (Select language)</p> <p>Key in Access Code 41830 (Select new message)</p> <p>Type and post a message on the website (You will be given a case number)</p> <p>Re-enter into website and insert case number to check on the "Status"</p>

In 2018, seven complaints were received via the Non-Compliance Hotline and a further seven complaints were received via other avenues (e.g. telephone, letter or e-mail).

ENGAGEMENT

RELATIONS WITH STAKEHOLDERS

We aim to present a clear and balanced assessment of our financial position and prospects. Quarterly financial results are announced as early as possible (refer to table below), and audited financial statements are published within three months after the end of the financial year. Quarterly statements are issued to keep Shareholders informed of the performance and operations of the Group.

2018 Quarterly Results	Date of Issue/Release	Number of Days after End of Quarter
Q1 2018	24 April 2018	24
Q2 2018	14 August 2018	45
Q3 2018	30 October 2018	30
Q4 2018	26 February 2019	57

Investor Relations

The Company holds quarterly briefings for fund managers, institutional investors and investment analysts after its announcement of each quarterly results to Bursa Malaysia. The quarterly briefings are intended not only to promote the dissemination of the financial results of the Group to fund managers, investors and shareholders but to also keep the investing public and other stakeholders updated on the progress and development of the Company's business. The quarterly briefings are conducted by the CFO.

In 2018, the Company held four quarterly briefings and engaged with institutional investors on a regular basis.

In addition to providing comprehensive insights into the Company's financial performance, the Board also recognises the importance of communicating the Company's business strategies and updates on the progress of the current business initiatives.

The Board places great importance in maintaining active dialogue and effective communication with Shareholders and investors, ensuring accountability and transparency to enable Shareholders and investors to make informed investment decisions.

As part of the Company's commitment towards this objective, experienced members of the Management Team are directly involved in the Company's investor relations activities, headed by the CFO, whose details are as follows:

CRAIG CONNOLLY

Nestlé (Malaysia) Berhad

(110925-W)

22-1, 22nd Floor Menara Surian

No. 1, Jalan PJU 7/3

Mutiara Damansara

47810 Petaling Jaya

Selangor Darul Ehsan

Tel No. : +603 7965 6000

E-mail : InvestorRelations.Malaysia@my.nestle.com

Other Stakeholders

We also maintain continuous engagement with our other stakeholders, including but not limited to employees, consumers, regulators, suppliers and society in general. Our stakeholder engagement process is three-pronged, whereby we identify our stakeholder, we conduct mapping and defining of current and emerging issues, and we continue to manage engagement initiatives and share our progress. The full details of our stakeholder engagements are available on pages 12 to 14 of the Nestlé in Society 2018.

Disclosure of Information

In terms of disclosure of material information, the Board adopts a comprehensive, accurate and timely approach in compliance with the Listing Requirements and the Corporate Disclosure Guide of Bursa Malaysia Berhad.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Engagement

Reporting via The Internet

The Company's website at www.nestle.com.my is a major channel in providing our Shareholders and other stakeholders with information on the Company's corporate governance structure, policies and systems. The "About Us" and "Investors" sections of our website include:

NESTLÉ IN MALAYSIA	
Message to Shareholders	Head Office and Factories
Profile of CEO	Awards and Achievements
Board of Directors	Nestlé ROCKS
Executive Committee	Tell us if you have concerns
Corporate Philosophy	Nestlé Malaysia Anti-Corruption, Gifts & Entertainment Guidelines (For Customers & Suppliers)

INVESTORS	
Group Financial Highlights	Corporate Governance
5 Years' Statistics	Supporting the WHO Code
Annual Report	Company Announcements

We recognise that not all Shareholders and stakeholders have ready access to the internet. For those who do not, hard copies of the Company's website information listed above are available free of charge upon written request to the Company Secretary.

Annual General Meeting

The Company's AGM represents the primary platform for direct two-way interaction between the Shareholders, the Board and the Management Team and acts as a principal forum for dialogue with all Shareholders.

The Company sends out the Notice of AGM and related circular to Shareholders at least 28 days before the meeting in order to facilitate the full understanding and evaluation of the issues involved.

Where special business items appear in the Notice of AGM, a full explanation is provided to Shareholders on the effect of the proposed resolution arising from such items. The AGM is the principal opportunity for the Board to meet Shareholders, for the Board to provide an overview of the Company's progress, and to receive questions from Shareholders.

At the AGM, Shareholders actively participate in discussing the resolutions proposed or on future developments of the Company's operations in general. The Board, the Management Team and the Company's external auditor, are present to answer questions raised and provide clarification as required by Shareholders.

To strengthen the Company's corporate governance, all resolutions set out in the Notice of AGM, will be put to e-voting during the AGM. A press conference will be held immediately after the AGM where the Chairman, CEO, CFO and if necessary, selected members of the Management Team are present to provide updates to the media representatives of the resolutions passed and answer questions on matters relating to the Group. The outcome of the AGM is announced to Bursa Malaysia on the same meeting day.

At every AGM, help desks are set up as a contact point for Shareholders. The Company's primary contact with Shareholders is through the Chairman, CEO, CFO and the Company Secretary. All Shareholders' queries are received by the Company Secretary. The Company Secretary provides feedback and responses to the Shareholders' queries, save for sensitive information, which may not be privy to the general public. Written responses will also be given, if necessary.

The 35th AGM will be held on 25 April 2019 at the Hilton Kuala Lumpur Hotel.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

ADDITIONAL DISCLOSURE

Related Party Transactions

An internal compliance framework exists to ensure the Company meets its obligations under the Listing Requirements, including obligations relating to related party transactions. The Board, through its Audit Committee, reviews and monitors all related party transactions and conflicts of interest situations, if any, on a quarterly basis. A Director who has an interest in a transaction must abstain from deliberating and voting on the relevant resolutions in respect of such a transaction at the meeting of the Board, the AGM or Extraordinary General Meeting.

The Group has established procedures regarding its related party transactions which are summarised as follows:

- all related party transactions are required to be undertaken on an arm's length basis and on normal commercial terms not more favourable than those generally available to the public and other suppliers, and are not detrimental to the minority Shareholders;
- all related party transactions are reported to the Audit Committee. Any member of the Audit Committee, where deemed fit, may request for additional information pertaining to the transactions, including advice from independent sources or advisers; and
- all recurrent related party transactions which are entered into pursuant to the Shareholders' mandate for recurrent related party transactions are recorded by the Group.

The Recurrent Related Party Transactions pursuant to Shareholders' mandate entered into by the Company with its related parties from 26 April 2018 (the date of the last AGM) to 1 March 2019, are as follows:

- Purchases of raw materials, semi-finished and finished food products from Nestlé affiliated companies which amounted to approximately RM825 million;
- Payment of royalties for the use of trademarks for the sale of food products to Nestlé affiliated companies amounting to approximately RM249 million;
- Payment for information technology shared services for use and maintenance of information technology services to Nestlé affiliated companies which amounted to RM33 million;

- Sale of food products to Nestlé affiliated companies amounting to approximately RM888 million;
- Payment for shared services of approximately RM2.6 million for Cereal Partners (Malaysia) Sdn. Bhd., RM2.0 million for Purina Petcare (Malaysia) Sdn. Bhd., RM2.7 million for Wyeth Nutrition (Malaysia) Sdn. Bhd. and RM4.5 million for Nestrade S.A.; and
- Payment of interests for Intra Group Loan of approximately RM8.7 million to Nestlé Treasury Centre-Middle East & Africa.

Material Contracts

There were no material contracts entered into by the Group involving the interest of Directors and its major Shareholder, either still subsisting at the end of the financial year ended 31 December 2018 or entered into since the end of the previous financial year.

Compliance Statement by the Board of Directors on Corporate Governance Overview Statement

The Board has deliberated, reviewed and approved this Corporate Governance Overview Statement. Pursuant to Paragraph 15.25 of the Listing Requirements, the Board is pleased to report that the Board is satisfied that to the best of its knowledge the Company has fulfilled its obligations in accordance with applicable laws, regulations, throughout the financial year ended 31 December 2018. Save as disclosed in our Corporate Governance Report, which is available on our Company's website www.nestle.com, we have complied with the main principles of the MCCG.

This Corporate Governance Overview Statement was presented and approved at the meeting of the Board on 5 March 2019.

On behalf of the Board



Y.A.M. TAN SRI DATO' SERI SYED ANWAR JAMALULLAIL
Chairman

CORPORATE GOVERNANCE OVERVIEW STATEMENT

AUDIT COMMITTEE REPORT



Preamble from the Audit Committee

Chairman



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The Audit Committee has played a key role in ensuring appropriate challenge and governance in matters relating to internal control and risk management and financial reporting.

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COMPOSITION

The Board has established the Audit Committee (“the Committee”) with three members who are all Non-Executive Directors, a majority of them being Independent Directors, as follows:

DIRECTOR	POSITION	MEETING ATTENDANCE			
		Q1	Q2	Q3	Q4
Dato' Mohd. Rafik Bin Shah Mohamad Independent Non-Executive Director (Fellow of the Association of Chartered Certified Accountant, United Kingdom; member of the MIA) Appointed as Chairman on 20 February 2018 following the redesignation of Y.A.M.Tan Sri Dato' Seri Syed Anwar Jamalullail as Non-Independent Director.	Chairman	☑	☑	☑	☑
Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail Non-Independent Non-Executive Director (Member of CPA (Australia), member of the MIA) He was the Chairman of the Audit Committee until his redesignation as Non-Independent Director on 20 February 2018	Member	☑	☑	☑	☑
Tan Sri Datuk (Dr.) Rafiah Binti Salim Independent Non-Executive Director	Member	☑	☑	☑	☑

The Committee is chaired by an Independent Director who is a member of the Malaysian Institute of Accountants (MIA) appointed by the Board from its members. The Committee is comprised of three Non-Executive Directors, two of which are Independent. The Chairman of the Committee is not the Chairman of the Board. All members of the Committee are financially literate, equipped with the required business skills and able to understand matters under the purview of the Committee. The Chairman of the Committee, Dato' Mohd. Rafik Bin Shah Mohamad and another member, Tan Sri Dato' Seri Syed Anwar Jamalullail, are both chartered accountants with considerable financial experience in a public company environment, in addition to being members of the MIA. Tan Sri Datuk (Dr.) Rafiah Binti Salim was the Assistant Governor of the Central Bank of Malaysia and has vast experience in the financial fields to satisfy the requirements under the MCGG.



The Terms of Reference of the Audit Committee is available on the Company's website at www.nestle.com.my.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Audit Committee Report

A quorum, established by the presence of the Chairman, and at least one other member whom must be an Independent Director, has always been met for meetings of the Committee. The CFO, representatives of the external auditor, the Head of Nestlé Internal Audit and the Head of Accounting & Consolidation, Insurance/Pension are also invited to attend all the Committee meetings. The Committee also extends meeting invites to relevant members of the Management Team for matters that require their input and feedback.

Key Objectives:

The Committee's principal role is to assist the Board in carrying out its responsibilities in relation to monitoring the integrity of financial reporting, the adequacy of related disclosures, the effectiveness of internal control and risk management, and in maintaining an appropriate relationship with the Group's auditors. The Committee sets its own agenda in addition to routine matters and those suggested by the Board. More details on the Committee's role and responsibilities can be found in the Committee's Terms of Reference.

The Audit Committee and its Work:

The Committee discharges its responsibilities through a series of scheduled meetings during the year, the agenda of each being linked to events in the financial calendar of the Group and also any other areas of importance to the Committee. The Committee met four times during the financial year with all members in attendance at all meetings. The Chairman is responsible for the conduct of the Committee meetings.

The Company Secretary of the Company acts as the Secretary of the Committee who is in attendance at all meetings and records the proceedings of the meeting. The Committee may invite any

employee of the Company to attend its meetings, has access to any form of independent professional advice, information and the advice and services of the Company Secretary, if and when required, in carrying out its functions.

During the year, the CFO, representatives of the external auditor, KPMG PLT ("KPMG"), the Head of Nestlé Internal Audit and the Head of Accounting & Consolidation/Insurance & Pension, attended all meetings in order to ensure that the Committee remained fully informed of events and developments within the business, thus reinforcing a strong internal control and risk management culture. The Committee met KPMG three times during the year privately without the presence of the Executive Directors or the Management Team.

In addition to the meetings of the Committee, the Chairman met with other members of the Finance team and regional operating management throughout the year.

Every quarter, the Committee reviews and deliberates on the Group's Enterprise Risk Management which identifies the potential major risks to the Group, the development of potential major risks, the implementation of mitigating measures, and the monitoring of mitigation efforts to minimise the risks.

All Committee meeting minutes, including meeting papers, on matters deliberated by the Committee in the discharge of its functions are properly documented. The Committee reports to the Board every quarter on matters falling within the Committee's Terms of Reference including the recommendations of the Committee for the Board's consideration and approval. The Committee continuously reviews and updates its Terms of Reference with the last review carried out on 25 February 2019 and approved by the Board on 26 February 2019.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
Audit Committee Report

KEY AREAS OF FOCUS DURING THE YEAR

The table below summarises the key activities of the Committee in 2018:

AGENDA

- Review and approve the cumulative full year results for the financial year ended 31 December 2017 and cumulative first half year results for the financial year ended 31 December 2018.
- Review and approve the Directors' Report and Accounts for the financial year ended 31 December 2017.
- Review and approve the Quarterly Results.
- Review the proposal of dividend, review the solvency of the Company before recommending to the Board the dividend payments.
- Review of financial results announcements before recommending them for Board's approval.
- Review of the Company's compliance with the Listing Requirements, Malaysia Accounting Standards Board ("MASB") and other relevant legal and regulatory requirements with regards to the quarterly and year-end financial statements.
- Review and deliberate on the Risk Enterprise Management, potential major risks of the Group, the mitigating measures and updates.
- Review the cyber security risks of the Group.
- Review of the regulatory landscape impacting the business.
- Review the Recurrent Related Party Transactions of the Group.
- Review and approve the draft Circular to Shareholders in relation to the Proposed Renewal of Shareholders' Mandates and New Shareholders' mandate for Recurrent Related Party Transactions of a revenue or trading nature.
- Report on major litigation, claims and/or issues with substantial financial impact (if any).
- Review the current status of complaints received through the Non-Compliance Hotline.
- Receive updates on the Nestlé Malaysia Group Retirement Scheme (Pension Fund).
- Review Nestlé Internal Audit's report, recommendations and the responses from the Management Team.
- Review the update on the development of the Internal Audit Practices.
- Review Nestlé Internal Audit's resource requirements, scope, adequacy and function.
- Review the overall performance of the Nestlé Internal Audit team and the individual members of the Nestlé Internal Audit team.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
Audit Committee Report

AGENDA

- Review the performance of the Head of Nestlé Internal Audit (in her absence).
- Review and take cognisance of the movements of the Nestlé Internal Audit team members.
- Review the external auditor's report and the responses from the Management Team.
- Discuss with the external auditor on issues/matters arising from the audit, held on 19 February 2018, 13 August 2018 and 29 October 2018 (in the absence of the Management Team).
- Note and discuss the outcome of Assessment of the Objectivity, Independence and Quality of Service Delivery of the Group's external auditor for the year ended 31 December 2017 and to ensure the external auditor meets the criteria provided by the Listing Requirements (in the absence of the external auditor).
- Recommend the re-appointment of the Group's external auditor for the financial year ending 31 December 2018 and for the Directors to fix their remuneration.
- Evaluate the results of the assessment of the Audit Committee carried out by an independent service provider, Tricor Corporate Services Sdn. Bhd.
- Review the trainings for the members of the Audit Committee.
- Review and approve the Statement on Internal Control and Risk Management for the Annual Report 2017.
- Review the policy on appointment of former key audit partner as a member of the Committee.
- Review and approve the Terms of Reference of the Audit Committee.
- Review and approve the Audit Committee Report to be disclosed in the Annual Report 2017.
- Review the effectiveness of the Audit Committee meetings.
- Review the Audit Plan for 2019.
- Approve the Audit Committee Agenda for 2019.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
Audit Committee Report

Nestlé Malaysia Internal Audit Department

Nestlé Internal Audit is aligned to the MCCG. The Nestlé Internal Audit is administered as a department within the Finance & Control function in the Group but reports directly to the Audit Committee and functionally to the Nestlé S.A. Audit Department, also known as “Nestlé Internal Audit (Center)”, in Vevey, Switzerland, thus ensuring its independence. Its main role is to undertake independent and systematic reviews of the processes and guidelines of the Group and to report on their application and compliance, the details of which can be found on pages 41 to 45 of the Statement on Risk Management and Internal Control. The outcome of the reviews are objectively reported to the Management Team and to the Audit Committee, prior to it being presented to the Board.

The work of the Nestlé Internal Audit is based on the Standards for the Professional Practice of Internal Auditing Framework.

The Nestlé Internal Audit is led by Miss Masita Mohamad Jalil, age 44 years old. She has served the Company for 16 years, seven years in an Internal Audit function, locally and internationally, and nine years in a Business Controlling function. She was transferred back to lead the audit team in May 2018.

She is a member of CPA (Australia), Malaysian Institute of Accountants (MIA) and a professional member of the Institute of International Auditors Malaysia. She holds an Accounting and Finance Degree from Deakin University (Australia).

Her team consists of four experienced and qualified auditors with various professional qualifications, namely Certified Fraud Examiner (US), Chartered Institute of Management Accountant (UK), Association of Chartered Certified Accountant (UK), professional members of the Institute of International Auditors Malaysia and Master of Business Administration.

All internal auditors are free from any relationships or conflicts of interest, which could impair their objectivity and independence.

The costs incurred for the Internal Audit function for the financial year ended 31 December 2018 was RM1.3 million.

Relationship With External Auditor

The Audit Committee is responsible for the development, implementation and monitoring of the policies and procedures on the use of the external auditor for non-audit services, in ensuring that the external auditor maintains the necessary degree of independence and objectivity.

KPMG has provided written confirmation of its independence throughout the year, within the meaning of the regulations on this matter and in accordance with their professional standards. Further, in ensuring the independence of the external auditor, the Audit Committee does impose a requirement on the external auditor to rotate the audit partner responsible for the Company audit every seven years, in line with the Audit Partner Rotation requirements issued by the MIA. In this regard, the Audit Committee and Board are satisfied with the suitability and the independence of the external auditor.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
Audit Committee Report

The fees paid/payable to the external auditor, KPMG, in the financial year ended 2017 and 2018 were as follows:

	2018	2017
Audit and Remuneration	490	446
Non-audit services*	45	104
Tax compliance review	29	29
TOTAL	564	579

* This amount includes among others, review of Statement on Risk Management and Internal Control and due diligence work for divestment of the Chilled Dairy Business.

The Committee has an established framework for assessing the effectiveness of the external audit process. This includes:

- a review of the audit plan, including the materiality level set by the external auditor and the process they have adopted to identify financial statement risks and key areas of audit focus;
- regular communications between the external auditor and both the Committee and the Management Team, including discussion of regular papers prepared by the Management Team and KPMG;
- regular discussions with the external auditor (in the absence of management) and the Management Team (in the absence of KPMG) in order to discuss the external audit process;
- a review of the final audit report, noting key areas of auditor judgement and the reasoning behind the conclusions reached; and
- a formal questionnaire issued to all Committee members and also to the Management Team leading the audit which covers among other items, the quality of the audit and external audit team, the audit planning approach and execution, the presence and capabilities of the lead audit partner, the team's communication with the Committee and the Management Team as well as the external auditor's independence and objectivity.

The independence and suitability assessments of the external auditors were reviewed by the Audit Committee on 25 February 2019. The Audit Committee deliberated and recommended to the Board for the re-appointment of KPMG to be tabled at the 2019 AGM for the Shareholders' approval.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

NOMINATION AND COMPENSATION COMMITTEE REPORT



Preamble from the NCC Committee

Chairman



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We believe that the skills, experience, knowledge and attributes of our Board and the Nestlé Leadership Team are the fundamental elements for successful delivery of our strategic and financial objectives.

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COMPOSITION

It has been a transformative year for the Company with changes to the Nomination and Compensation Committee. On 20 February 2018, the Board took the decision to combine the Nomination Committee and the Compensation Committee by establishing a single committee known as the Nomination and Compensation Committee ("Committee") to create better synergy and efficiency.

In 2018, the Committee deliberated on a number of leadership changes. The Committee oversaw the retirement of Tan Sri Datuk Yong Poh Kon and Toh Puan Dato' Seri Hajjah Dr. Aishah Ong upon them reaching the age of 72 and the selection and appointment of a new Non-Executive Director with Dato' Dr. Nirmala Menon joining the Board as an Independent Director effective from 27 April 2018. The Board also welcomed Juan Aranols as the new Executive Director and CEO with effect from 1 December 2018 and Craig Connolly as the new Executive Director and CFO with effect from 1 February 2019.

The combined Nomination and Compensation Committee comprises exclusively of Non-Executive Directors. Even though the Committee is chaired by a Non-Independent Director, all other members of the Committee are Independent Directors. Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail has been elected as Chairman of the Committee due to his vast experience, knowledge, exemplary leadership and dedication. This is important in ensuring an effective Committee, with the right composition and expertise, and setting the direction and objective of the Committee.

	Position	Nomination Committee (1 meeting held in 2018)	Compensation Committee (1 meeting held in 2018)
Prior to 20 February 2018			
NOMINATION COMMITTEE			
Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail	Chairman	☑	
Dato' Frits van Dijk	Member	☑	
Tan Sri Datuk Yong Poh Kon	Member	☑	
COMPENSATION COMMITTEE			
Dato' Mohd. Rafik Bin Shah Mohamad	Chairman		☑
Tan Sri Datuk (Dr.) Rafiah Binti Salim	Member		☑
Dato' Frits van Dijk	Member		☑
Alois Hofbauer	Member		☑

CORPORATE GOVERNANCE OVERVIEW STATEMENT
Nomination and Compensation Committee Report

	Position	Nomination and Compensation Committee (1 meeting held in 2018)
Effective from 20 February 2018		
NOMINATION AND COMPENSATION COMMITTEE		
Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail	Chairman	☑
Dato' Mohd. Rafik Bin Shah Mohamad	Member	☑
Dato' Frits van Dijk	Member	☑
Tan Sri Datuk (Dr.) Rafiah Binti Salim	Member	☑
Tan Sri Datuk Yong Poh Kon (retired on 26 April 2018)	Member	N/A

A quorum established by the presence of the Chairman, and at least one other member whom must be an Independent Director, has always been met for meetings of the Committee. On invitation by the Committee, the CEO attends all Committee meetings. The Committee also extends meeting invites to relevant members of the Management Team for matters that require their input and feedback.

Key Objectives:

The main objectives of the Nomination and Compensation Committee are as follows:

1. To ensure that the Board comprises of individuals with the necessary skills, knowledge and experience for the effective discharge of its responsibilities and to have an oversight of all matters relating to corporate governance.
2. To assess and make recommendations to the Board on the policies for remuneration of the members of the Board, the Senior Management and employees of the Group.

The principle responsibilities of the Committee with regards to the nomination functions are as follows:

1. Leads the process for identifying and making recommendations to the Board regarding candidates for appointment as Directors, giving full consideration to succession planning and the leadership needs of the Company;

2. Regularly reviews and makes recommendations in relation to the structure, size and composition of the Board including the diversity and balance of skills, knowledge and experience, and the independence of the Directors;
3. Oversees the performance evaluation of the Board, the Board Committees and individual Directors;
4. Reviews the tenure of each of the Non-Executive Directors;
5. Reviews the retirement of Directors and succession plans including the potential candidates of the Board, policy on Board composition and diversity (including gender, ethnicity/cultural background and age diversity) and reviews the management development and succession plans for the Nestlé Leadership Team of the Company;

6. Makes recommendations to the Board on the composition of the Board and Board Committees; and
7. Reviews the attrition rate of employees.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Nomination and Compensation Committee Report

The principle responsibilities of the Committee with regards to the compensation functions are as follows:

1. Determines, on behalf of the Board, the policy on the remuneration of Non-Executive Directors and the employees of the Group;
2. Reviews and proposes to the Board the remuneration and allowance for the Non-Executive Directors;
3. Reviews the remuneration package for the Executive Directors;
4. Reviews the remuneration package for the Nestlé Leadership Team; and
5. Reviews and approves the Management's proposal for the employee salary increase package as recommended by the Group Human Resource Department for subsequent approval by the Board.



The Terms of Reference of the Nomination and Compensation Committee and the Remuneration Policy are available on the Company's website at www.nestle.com.my.

The Nomination and Compensation Committee and its Work:

Regular meetings are fixed in a calendar year and the Chairman has the discretion to call for additional meetings whenever required. The Chairman is responsible for the conduct of the Committee meetings.

The Company Secretary of the Company acts as the Secretary of the Committee, who is in attendance at all the meetings and records the proceedings of the meetings. The Committee may invite any employee of the Company to attend its meetings, has access to any form of independent professional advice, and has the services of the Company Secretary, if and when required, in carrying out its functions.

In addition to the annual review of the remuneration package for the Executive Director and the Nestlé Leadership Team, the Committee reviews and recommends to the Board on an annual basis the remuneration package for the Group's employees. To ensure the competitiveness of the Groups' remuneration

package, a benchmarking exercise against companies within the same industry is carried out.

Further, the Non-Executive Directors' fees and allowances are annually reviewed by the Committee for approval by the Board prior to it being tabled at the AGM for the Shareholders' approval.

At least once in every three years, the Committee reviews the remuneration package of the Non-Executive Directors and makes its recommendation to the Board. In reviewing the remuneration package for the Non-Executive Directors, the Committee considers the need to remunerate appropriately, taking into consideration the experience, expertise and level of responsibility of the Directors.

Following a Board Remuneration review in 2017 by an external professional advisor, Towers Watson (Malaysia) Sdn. Bhd., in line with the market movement of Non-Executive Director's remuneration, the Compensation Committee existing then proposed for the Non-Executive Director's remuneration for 2018 onwards to be revised, subject to the Shareholders' approval at the 2019 AGM.

There is a Remuneration Policy in place which is annually reviewed by the Committee.

Annually, the Committee also discusses the succession plans for the Board and the Nestlé Leadership Team. In addition, the Committee reviews the Diversity Policy that recognizes the effectiveness that a diverse workforce can bring. A balance of skills, experience, age, ethnicity/cultural background, gender and differing perspectives are essential in understanding all aspects of the business and its strategic intent.

All Committee meeting minutes, including meeting papers, on matters deliberated by the Committee in the discharge of its functions are properly documented. Recommendations by the Committee are reported at the meeting of the Board by the Chairman for the Board's consideration and approval. The Committee continuously reviews and updates its Terms of Reference with the last review carried out on 15 February 2019 and approved by the Board on 26 February 2019.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
Nomination and Compensation Committee Report

KEY AREAS OF FOCUS DURING THE YEAR

The table below summarises the key activities of the Committee in 2018:

MEETING	NOMINATION COMMITTEE	COMPENSATION COMMITTEE
<p>FEBRUARY</p>	<ul style="list-style-type: none"> Review the trainings attended by each Director, assess the training needs of the Directors and approve the 2018 Training Programme for the Board. Review the implementation and completion of the 2018 Board Improvement Programme, pursuant to the findings of the 2017 Board Effectiveness Evaluation. Review the policy on Board composition of the Board and Board Committee (including gender, ethnicity/cultural background and age diversity). Review and approve the Diversity Policy. Reorganization of the Compensation Committee and Nomination Committee into a single combined Committee. Re-designation of Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail as Non-Independent Director. Review and discuss the retirement schedule and succession plans for the Non-Executive Directors. Facilitate the search for a new Non-Executive Director, review and deliberate on potential candidates. Review the appointment of the new Non-Executive Director. Review and approve the Terms of Reference of the combined Nomination and Compensation Committee. Review and approve the Nomination Committee Report to be disclosed in the Annual Report 2017. Review the effectiveness of the Nomination Committee meeting. Approve the Nomination and Compensation Committee Agenda for 2018. 	<ul style="list-style-type: none"> Review the implementation of the approved Remuneration Direction for 2018. Review and discuss the proposed fees and benefits to be paid to Non-Executive Directors. Review the Remuneration of the Executive Directors. Review the remuneration of the Nestlé Leadership Team. Review and approve the Remuneration Policy. Reorganization of the Compensation Committee and Nomination Committee into a single combined Committee. Review and approve the Terms of Reference of the combined Nomination and Compensation Committee. Review and approve the Compensation Committee Report to be disclosed in the Annual Report 2017. Review the effectiveness of the Compensation Committee meeting. Approve the Nomination and Compensation Committee Agenda for 2018.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
Nomination and Compensation Committee Report

MEETING	NOMINATION AND COMPENSATION COMMITTEE
OCTOBER	<ul style="list-style-type: none"> • Review the evaluation to be made on the contribution, performance including core competencies and the effectiveness of the Board, the Board Committees and the individual Directors. • Facilitate the 2018 Board Effectiveness Evaluation and validate the results thereof. An external service provider, Tricor Corporate Services Sdn. Bhd. was engaged to facilitate the 2018 Board Effectiveness Evaluation. • Evaluate the size, structure, function, composition and diversity (including gender, ethnicity/cultural background and age) as well as the core competencies of the Board and the Board Committees. • Review the term of office and evaluate the contribution, performance of the Board, the Board Committees and individual Directors. • Assess the independence of each Independent Director. • Review the declaration of the list of directorship(s) and time commitment by each Director. • Review and discuss the retirement schedule and succession plans for the Non-Executive Directors. • Assess the retirement of Directors by rotation, the re-election and retention of Directors and their eligibility for re-election and retention. • Review the appointment of the new CEO, CFO and the Alternate Directors. • Review the Corporate Governance Diagnostic Gap assessment and evaluate the next steps pursuant to the assessment. • Review the trainings attended by each Director. • Review the management development and succession plans for the Nestlé Leadership Team. • Review the Remuneration Director for 2019. • Review the employee attrition rate. • Review the effectiveness of the Nomination and Compensation Committee Meeting. • Approve the Nomination and Compensation Committee Agenda for 2019.

CORPORATE GOVERNANCE OVERVIEW STATEMENT
Nomination and Compensation Committee Report

**DIRECTORS ELIGIBLE FOR RE-ELECTION/RETENTION
AT THE COMPANY'S 2019 ANNUAL GENERAL MEETING**

The following Directors will be retiring at the forthcoming 2019 AGM and are eligible for re-election:

- (i) Pursuant to Article 97.1 of the Company's Constitution:
 - Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail; and
 - Dato' Frits van Dijk.
- (ii) Pursuant to Article 106 of the Company's Constitution:
 - Dato' Dr. Nirmala Menon;
 - Juan Aranols; and
 - Craig Connolly.

Having served for a cumulative term of more than nine years, we propose that the following Directors be retained as Independent Directors at the forthcoming 2019 AGM in accordance with Article 97.3.1 of the Company's Constitution and Practice 4.2 of the MCCG:

- Dato' Mohd. Rafik Bin Shah Mohamad; and
- Tan Sri Datuk (Dr.) Rafiah Binti Salim.

**ASSESSMENT AND RECOMMENDATION ON RETENTION
OF DIRECTORS**

Dato' Mohd. Rafik Bin Shah Mohamad

Dato' Mohd. Rafik Bin Shah Mohamad, age 68, has been a Director of the Company since 1 June 2007. He was initially appointed as a Non-Independent Non-Executive Director before being re-designated as an Independent Non-Executive Director on 7 August 2008. His position as an Independent Non-Executive Director has been assessed pursuant to Article 97.3.1 of the Company's Constitution and Practice 4.2 of the MCCG.

The recommendation to retain Dato' Mohd. Rafik as an Independent Director is supported by his 25 years of experience in the Company and his vast experience in the area of finance. He is a qualified Chartered Accountant from the Malaysian Institute of Accountants and he is a fellow of the Association of Chartered Certified Accountants, United Kingdom. With his knowledge and experience, he provides valuable guidance and analytical input in financial matters and the operations of the Company. Dato' Mohd. Rafik is also able to share his valuable experience and knowledge of the business and the industry with the Board.

It has been agreed that Dato' Mohd. Rafik will be retained as an Independent Non-Executive Director of the Company. The proposed resolution would also allow him to continue to serve as the Chairman of the Audit Committee pursuant to the requirements of Paragraph 15.10 of the Listing Requirements.

Tan Sri Datuk (Dr.) Rafiah Binti Salim

Tan Sri Datuk (Dr.) Rafiah Binti Salim, age 71, has been a Director of the Company since 17 April 2009. Her position as an Independent Non-Executive Director has been assessed pursuant to Article 97.3.1 and Practice 4.2 of the MCCG. It has been agreed to retain Tan Sri Datuk (Dr.) Rafiah Binti Salim as an Independent Non-Executive Director of the Company and as a Member of the Audit Committee.

The recommendation to retain her as an Independent Director is based on her vast experience in both the domestic public and private sectors, her extensive knowledge and experience in legal and human resource from various organisations. Her international experience as Assistant Secretary General for Human Resource Management of the United Nations in New York is a valuable asset to the Board and the Company. She brings diversity to the Board and the Company believes that she would be able to provide a distinctive outlook and unique perspective in diverse corporate matters.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Group's system of risk management and internal control, including the periodical review of its adequacy and integrity is the responsibility of the Board and the Management Team. The system of internal control emphasizes on matters of governance, risk management, organizational, operational, financial strategy, regulatory and compliance control. This system is established by the Board and the Management Team to manage, as opposed to eliminating the risks of non-compliance with the Group's policies and to fulfill the objectives and strategic priorities of the Group within the established risk tolerance thresholds that are in place. The system ensures the risk of the occurrence of any material misstatement, loss or fraud is substantially mitigated.

HOW WE APPROACH RISK

With the increasingly dynamic and complex business environment, it is critical that we understand the link between risk, internal controls, strategy and value. At Nestlé, this link is formalised through an alignment of our strategy, risk and internal processes, which supports fulfilment of our strategic priorities, thereby delivering value for all stakeholders. The Company's risk and opportunities strategy was part of the assessment requirement for ISO 9001:2015 certification.

BOARD OF DIRECTOR'S RESPONSIBILITIES

The Board and the Management Team are responsible and accountable for the establishment of the Group's system of risk management and internal control. The Audit Committee supports the Board in monitoring our risk exposures, the design and operating effectiveness of the underlying risk management and internal controls systems. The Audit Committee assists the Board, to oversee the following processes:

- (i) periodic reviews of the principal business risks, and control measures to mitigate or reduce such risks; the strengths and weaknesses of the overall internal controls system and action plans to address the weaknesses or to improve the assessment process;
- (ii) periodic reviews of the business process and operations reported by the Nestlé Internal Audit, including action plans to address the identified control weaknesses and status update and monitor in implementing its recommendations; and
- (iii) reports by the external auditors of any control issues identified in the course of their audit related and non-audit related work and the discussion with the external auditors of the scope of their respective review and findings.

The Audit Committee will then update the Board with the issues raised in the quarterly Audit Committee meetings.

The Board considers the works and findings of the Audit Committee in forming its own view on the effectiveness of the system.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

(Please also see “Audit Committee Report” on pages 29 to 34 regarding the Committee’s detailed review work, including the forms of “assurance” received from management, external auditor, and internal auditor). Our Board’s responsibilities include:

<p>the governance of risk; #1</p>	<p>determination at the levels of risk tolerance; #2</p>	<p>delegation to management the responsibility is design, implement and monitor risk management; #3</p>	<p>ensuring that risk assessment are performed continually; #4</p>
<p>ensuring the frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks; #5</p>	<p>ensuring continual risk monitoring by management; #6</p>	<p>receiving assurance regarding the effectiveness of the risk management process, and #7</p>	<p>ensuring that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders. #8</p>

OUR RISK MANAGEMENT FRAMEWORK

The Board and the Management Team fully support the contents of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers. In support of the Nestlé Malaysia Internal Audit Department and prevailing practices of related companies, the Board and the Management Team have put in place risk management guidelines, control measures and processes throughout the Group which are consistent with a global risk management framework.

Risk management is firmly embedded in the Group’s key processes through its Risk Management Framework, in line with Principle B and Practice 9.1 and 9.2 of the Malaysian Code on Corporate Governance 2017 (“MCCG 2017”). Risk management practices are inculcated and entrenched in the activities of the Group, which requires, amongst others, establishing risk tolerance thresholds to actively identify, assess and monitor key business risks faced by the Group.

Risk Management principles, policies, procedures and practices are periodically reviewed, with the results thereof communicated to the Board through the Audit Committee and changes and/or improvements made thereto where required and necessary to ensure their continuing relevance and compliance with current/ applicable laws, rules and regulations.

NESTLÉ MALAYSIA INTERNAL AUDIT DEPARTMENT

The Nestlé Malaysia Internal Audit Department, also known as “Nestlé Internal Audit”, is guided by its Audit Charter with the Head of Internal Audit reporting functionally to the Audit Committee and administratively to the CFO. The function is independent of the activities of other operating units and undertakes to review all policies and processes of the Group and its relationship with third parties. It provides the Board through the Audit Committee with an independent opinion on the processes, risk exposures and systems of internal controls of the Group. The responsibilities of the Nestlé Internal Audit include:

- assessing and reporting on the effectiveness of the risk management and internal control systems;
- assessing and reporting on the reliability of systems and reporting information;
- assessing and reporting on the operational efficiency of various business units and departments within the Group and identifying saving potentials, where practical; and
- reviewing compliance with the Group policies, Company Standing Instructions and guidelines, and applicable laws and regulations.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

THE NESTLÉ INTERNAL AUDIT IDENTIFIES ITS SCOPE OF AUDIT BASED ON RISK ASSESSMENTS PERFORMED ON:

A

the inherent risk of the business unit/ departments; and

B

the complexity of the end to end processes within each business unit/department.

On a quarterly basis, the results of the internal audits are reported to the Audit Committee and the report to the Audit Committee is a permanent agenda in the meeting of the Board. The Management Team’s response on each internal audit recommendation and action plans therein, are regularly reviewed and followed up by the Nestlé Internal Audit and reported to the Audit Committee.

A matrix which covers the overall audit ratings, nature of work and scope, and audit issues and its priorities have been developed as a template to guide the conduct of the follow up audit. For the financial year ended 31 December 2018, the Nestlé Internal Audit conducted six internal audits across corporate functions, business units and a factory. Six special reviews were conducted. Observations arising from the internal audit are presented, together with Management Team’s response and proposed action plans, to the Audit Committee for its review and approval.

Furthermore, the Nestlé S.A. Audit Department, also known as the “Nestlé Internal Audit (Center)”, the internal auditing arm of the holding company, Nestlé S.A., is also responsible for assessing the effectiveness of internal control for the Global Nestlé Group. The Nestlé Internal Audit (Center) conducts reviews of processes, systems and business excellence on selected business areas based on a Group wide Risk Assessment Methodology. In addition to the Audit Committee, the annual internal audit plan and results of the Nestlé Internal Audit (Center) are reported to Nestlé S.A. Management and the Audit Committee of Nestlé S.A. For the financial year ended 31 December 2018, based on the approved annual audit plan and the risk assessment, four audits were performed on the Group by the Nestlé Internal Audit (Center).

Every year the annual audit plan will be presented and reviewed by the Audit Committee and approved by the Board in the last quarter of the preceding year.

HOW WE TREAT RISK

The Group monitors and minimises key risks in a structured and proactive manner. Over the years, capacity has been adjusted in response to demand, working capital has undergone structural improvements, the focus on price and mix has intensified and the purchasing process for raw materials has been further streamlined. Some of the major risks that have been identified are described as below:

RISK

Regulatory framework of the food and beverage industry

Competitiveness in manufacturing and supply chain

Social media and society perception

Cyber-security attacks

People related challenges

Environmental issues

The impact of the major risks have been evaluated and mitigation efforts are being taken to manage the identified risks.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

OTHER RISKS AND INTERNAL CONTROL PROCESSES

The overall governance structure and formally defined policy and procedures (via Company Standing Instructions) play a major part in establishing the control and the risk environment in the Group. Although the Group is a networked organisation, a documented and auditable trail of accountability have been established through relevant charters/terms of reference and appropriate authority limits. In addition, authority limits and major Group Policies (health and safety, training and development, equality of opportunity, staff performance, sexual harassment, and serious misconduct) and the Nestlé Corporate Business Principles (available on www.nestlé.com.my) have been disseminated and communicated to the Group's employees.

These processes and procedures have been established and embedded across the whole organisation and provides assurance to all levels of management, including the Board. The Nestlé Internal Audit serves to assess the implementation and the effectiveness of these procedures and reporting structures, as well as to verify the system of risk management and internal controls.

The CEO also reports to the Board on significant changes in the business and the external environment which materially affects the operations.

Financial information, key performance and risk indicators are also reported on a quarterly basis to the Board. In addition to the above, the Group leverages on the Nestlé Internal Control Self-Assessment Tool ("ICSAT") for all business units and corporate functions, which were rolled out in 2008. ICSAT, a globally driven initiative by Nestlé S.A. in response to the changes in the Swiss Code of Obligations for companies listed on the Swiss exchange, is an internally developed Control

Self-Assessment Solution which is used to measure each unit's compliance with the minimum internal controls determined by the Group. The objective of control self-assessment is to help each unit better identify their own internal control gaps and to develop specific, measurable, and timely action plans to address these gaps. These results are monitored by the Management Team and reported to the Board through the Audit Committee, as well as to Nestlé S.A. by the Nestlé Internal Audit. ICSAT also acts as a repository for internal controls which may be shared with other Nestlé units across the world.

For the financial year ended 31 December 2018, based on the completed ICSAT for the Group, gaps in respect to the minimum internal controls as determined by the Group are being looked into. Improvement opportunities where identified, and addressed with action plans for implementation against expected completion dates and persons responsible. The Risk Management and Control Framework Function performs the follow-up audit to assess and report on the status of these action plans (i.e. implemented, in progress, or pending) on a monthly basis to the CFO.

A Business Ethics & Fraud Committee set up by the management and chaired by the CEO meets periodically to review all complaints/allegations lodged via the Non-Compliance Hotline or any other avenues (e.g. phone, letter, e-mail) which are in line with the Whistleblowing policy of the Group as described on pages 24 and 25 of this Corporate Governance & Financial Statement 2018. This committee ensures an investigation is conducted when needed, reviews the investigation report and decides on the next course of action based on the nature of the violation. All fraud cases, if any, are also reported to Nestlé S.A. by the Nestlé Internal Audit.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

ADEQUACY AND EFFECTIVENESS OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board has received assurances from the CEO and CFO that the Group's risk management and internal control systems are operating adequately efficiently and effectively, in all material aspects, during the financial year under review. Taking into consideration the assurances from the Management Team and inputs from the relevant assurance providers, the Board is of the view and to the best of its knowledge that the system of risk management and internal control is satisfactory and is adequate to safeguard Shareholders' investments, customers' interest and Group's assets. The Group will continue to take measures to preserve, protect and strengthen the risk management and internal control environment.

THE REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in the Audit and Assurance Practice Guide ("AAPG") 3, Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the annual report of the Group for the year ended 31 December 2018, and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the annual report of the Group, in all material respects:

- (a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or
- (b) is factually inaccurate.

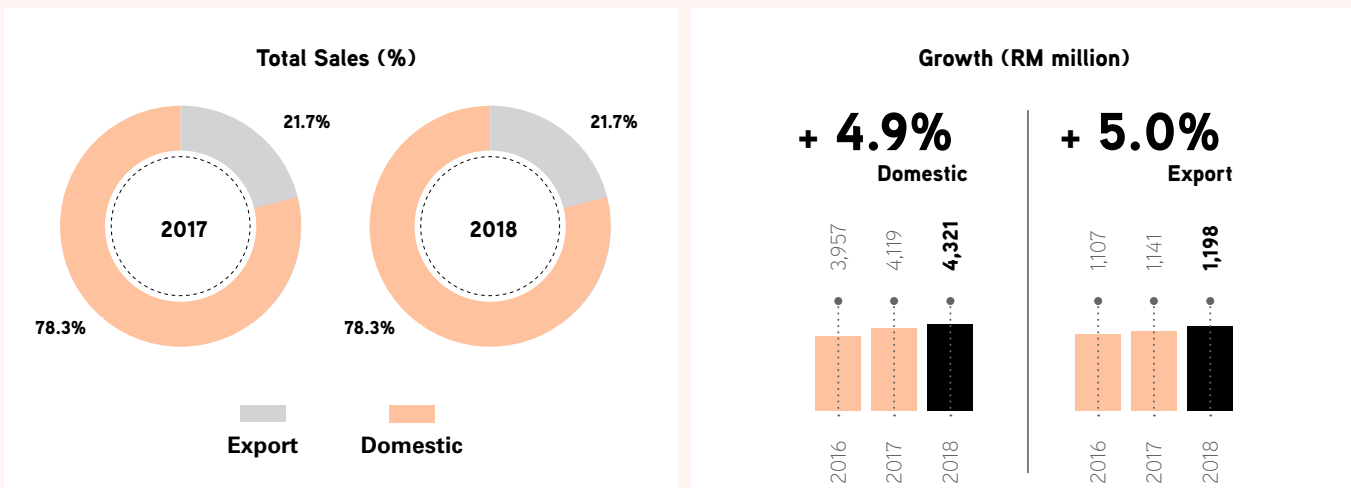
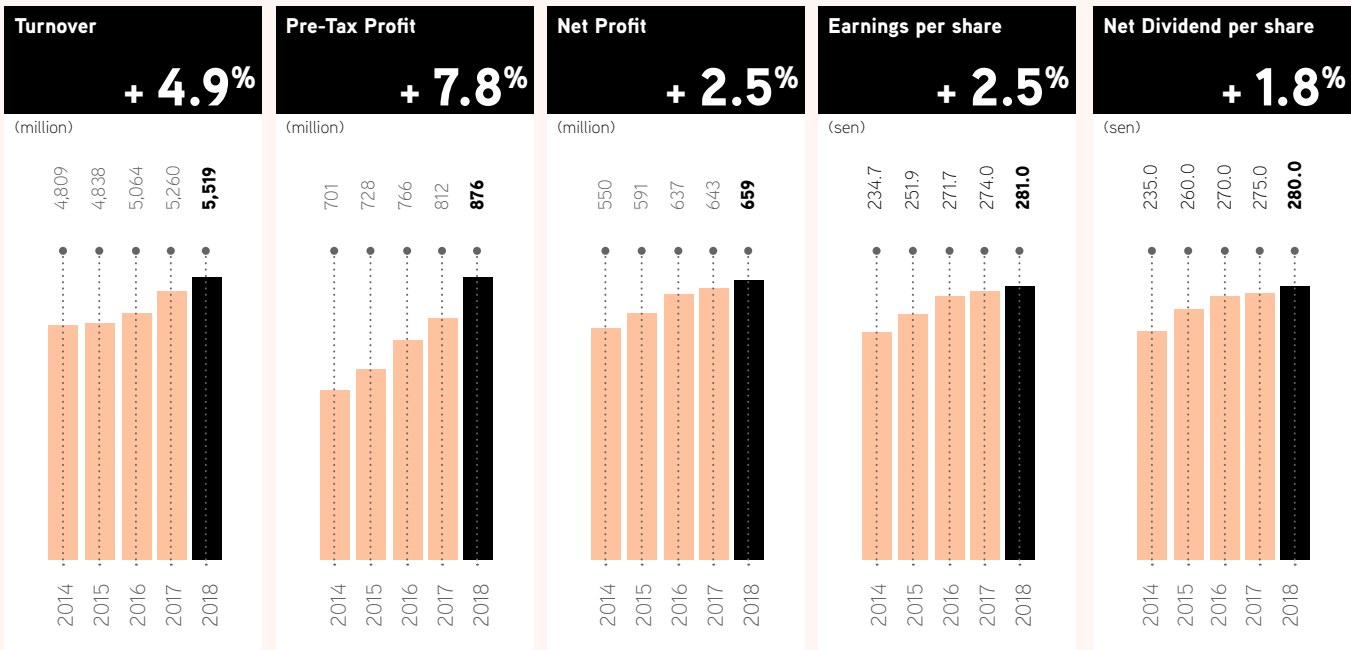
AAPG 3 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board of Directors and management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

This statement was presented and approved by the Board on 26 February 2019.

KEY HIGHLIGHTS

- Delivered higher revenue of RM5.5 billion, a 4.9% increase compared to the previous year.
- This was supported by strong export and domestic businesses, which grew 5.0% and 4.9% respectively.
- Due to improved internal efficiencies and favourable prices for key commodities, Nestlé (Malaysia) Berhad and its group of companies (the Group) recorded a Profit before Tax of RM876 million and Profit after Tax of RM659 million, an increase of 7.8% and 2.5% respectively for the financial year ended 31 December 2018.
- Proposed final dividend of RM1.40 per share, bringing total dividends for the year to RM2.80 per share.

FINANCIAL PERFORMANCE



FINANCIAL CALENDAR

DIVIDENDS

	First Interim	Second Interim	Final	Annual General Meeting
Announced	14 August 2018	30 October 2018	26 February 2019	25 April 2019
Record date	4 September 2018	21 November 2018	9 May 2019	
Paid	27 September 2018	13 December 2018	30 May 2019	

SHARE PERFORMANCE

	CALENDAR YEAR				
	2018	2017	2016	2015	2014
During the year					
Highest - RM	157.40	103.20	81.80	75.50	69.48
Lowest - RM	113.30	74.12	73.00	68.50	63.50
Last Trading Day - RM	147.40	103.20	78.20	73.40	68.50

SHARE PRICES (BURSA MALAYSIA) - CLOSE



GROUP FINANCIAL HIGHLIGHTS

		2018	2017*	+ / (-)
Turnover	(RM'000)	5,519,045	5,260,490	4.9%
Earnings/Cash Flow				
Profit before tax	(RM'000)	875,890	812,216	7.8%
% of turnover		15.9%	15.4%	
Profit after tax and minority interest	(RM'000)	658,882	642,550	2.5%
% of turnover		11.9%	12.2%	
Dividends paid & proposed (net)	(RM'000)	656,600	644,875	1.8%
Depreciation, amortisation and impairment	(RM'000)	165,354	158,104	
Cash flow (net profit + depreciation + amortisation + impairment)	(RM'000)	824,236	800,654	
Capital expenditure	(RM'000)	145,671	164,455	
Shareholders' funds	(RM'000)	654,333	635,894	
Personnel	(no.)	5,267	5,338	
Factories	(no.)	7	7	
Per Share				
Market price ¹	(RM)	147.40	103.20	
Earnings ²	(sen)	280.97	274.01	
Price earnings ratio		52.46	37.66	
Dividend (net)	(sen)	280.00	275.00	
Dividend yield	(%)	1.9	2.7	
Dividend cover ²	(no.)	1.0	1.0	
Shareholders' funds	(RM)	2.79	2.71	
Net tangible assets ³	(RM)	2.50	2.45	

* 2017 comparative figure restated due to adoption of MFRS 16, *Leases*.

- Notes**
1. The market price represents last done price of the shares quoted on the last trading day of December.
 2. Earnings per share and dividend cover are based on profit after tax.
 3. Net tangible assets consists of issued share capital plus reserves less intangible assets.

5 YEARS' STATISTICS

for the year ended 31 December 2018

	2018 RM'000	2017* RM'000	2016 RM'000	2015 RM'000	2014 RM'000	
Turnover	5,519,045	5,260,490	5,063,506	4,837,957	4,808,933	
Earnings/Cash Flow						
Profit before tax	875,890	812,216	766,494	727,711	701,187	
% of turnover	15.9%	15.4%	15.1%	15.0%	14.6%	
Profit after tax and minority interest	658,882	642,550	637,127	590,733	550,384	
% of turnover	11.9%	12.2%	12.6%	12.2%	11.4%	
Dividends paid & proposed (net)	656,600	644,875	633,150	609,700	551,075	
Depreciation, amortisation and impairment	165,354	158,104	138,040	125,845	112,210	
Cash flow (net profit + depreciation + amortisation + impairment)	824,236	800,654	775,167	716,578	662,594	
% of turnover	14.9%	15.2%	15.3%	14.8%	13.8%	
Capital expenditure	145,671	164,455	123,136	191,184	361,008	
Employment of Assets						
Fixed assets (net)	1,507,131	1,432,211	1,353,050	1,369,874	1,293,757	
Associated company	5,084	4,709	4,224	4,114	3,631	
Intangible assets	67,546	61,986	62,400	62,814	61,024	
Deferred tax assets	30,572	20,523	20,155	11,068	27,958	
Receivables, deposits & prepayments	21,533	24,283	24,745	25,048	23,576	
Net current liabilities	(566,663)	(577,999)	(546,807)	(509,215)	(412,734)	
Total	1,065,203	965,713	917,767	963,703	997,212	
Financed by						
Share capital	267,500	267,500	234,500	234,500	234,500	
Reserves	386,833	368,394	412,721	474,096	542,637	
Total shareholders' funds	654,333	635,894	647,221	708,596	777,137	
Deferred taxation	135,390	120,987	91,260	77,539	67,522	
Retirement benefit liabilities	95,282	89,749	86,140	81,117	62,486	
Borrowings and financial liabilities	180,198	119,083	93,146	96,451	90,067	
Total	1,065,203	965,713	917,767	963,703	997,212	
Per Share						
Market price ¹	(RM)	147.40	103.20	78.20	73.40	68.50
Earnings ²	(sen)	280.97	274.01	271.70	251.91	234.71
Price earnings ratio		52.46	37.66	28.78	29.14	29.19
Dividend (net)	(sen)	280.00	275.00	270.00	260.00	235.00
Dividend yield	(%)	1.9	2.7	3.5	3.5	3.4
Dividend cover ²	(no.)	1.0	1.0	1.0	1.0	1.0
Shareholders' funds	(RM)	2.79	2.71	2.76	3.02	3.31
Net tangible assets ³	(RM)	2.50	2.45	2.49	2.75	3.05
Personnel	(no.)	5,267	5,338	5,502	5,578	5,702
Factories	(no.)	7	7	8	8	7

* 2017 comparative figure restated due to adoption of MFRS 16, Leases.

- Notes**
1. The market price represents last done price of the shares quoted on the last trading day of December.
 2. Earnings per share and dividend cover are based on profit after tax.
 3. Net tangible assets consists of issued share capital plus reserves less intangible assets.

DIRECTORS' REPORT

for the year ended 31 December 2018

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of an investment holding company, whilst the principal activities of the subsidiaries are as stated in Note 6 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

ULTIMATE HOLDING COMPANY

The Company is a subsidiary of Nestlé S.A., of which is incorporated in Switzerland and regarded by the Directors as the Company's ultimate holding company, during the financial year and until the date of this report.

SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 6 to the financial statements.

RESULTS

	Group	Company
	RM'000	RM'000
Profit for the year attributable to owners of the Company	658,882	655,443

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

DIVIDENDS

Since the end of the previous financial year, the Company paid:

- i) a final dividend of 135 sen per ordinary share, totalling RM316,575,000 in respect of the financial year ended 31 December 2017 on 31 May 2018;
- ii) a first interim dividend of 70 sen per ordinary share, totalling RM164,150,000 in respect of the financial year ended 31 December 2018 on 27 September 2018; and
- iii) a second interim dividend of 70 sen per ordinary share, totalling RM164,150,000 in respect of the financial year ended 31 December 2018 on 13 December 2018.

The Directors recommended a final dividend of 140 sen per ordinary share, totalling RM328,300,000 in respect of the financial year ended 31 December 2018.

DIRECTORS OF THE COMPANY

Directors who served during the financial year until the date of this report are:

Director	Alternate
Tan Sri Dato' Seri Syed Anwar Jamalullail (Chairman)	
Dato' Mohd. Rafik bin Shah Mohamad	
Tan Sri Datuk (Dr.) Rafiah binti Salim	
Dato' Frits van Dijk	
Dato' Dr. Nirmala Menon (Appointed on 27 April 2018)	
Juan Jose Aranols Campillo (Appointed on 1 December 2018)	
Craig Grant Connolly (Appointed on 1 February 2019)	
Tan Sri Datuk Yong Poh Kon (Retired on 26 April 2018)	
Toh Puan Dato' Seri Hajjah Dr. Aishah Ong (Retired on 26 April 2018)	
Alois Hofbauer (Resigned on 30 November 2018)	Martin Peter Kruegel (Ceased on 30 November 2018)
Martin Peter Kruegel (Resigned on 31 January 2019)	Alois Hofbauer (Ceased on 30 November 2018)

DIRECTORS' INTERESTS IN SHARES

The interests and deemed interests in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at financial year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares			
	At 1.1.2018	Acquired	Sold	At 31.12.2018
<i>Shareholdings in which Directors have direct interest</i>				
<i>Interests in the Company</i>				
Dato' Frits van Dijk	8,000	-	8,000	-
Number of ordinary shares of CHF0.1 each				
<i>Interests in Nestlé S.A., the holding company</i>				
Dato' Frits van Dijk	175,000	-	25,000	150,000
Juan Jose Aranols Campillo	14,610	2,427	3,000	14,037
Martin Peter Kruegel	2,844	412	-	3,256

None of the other Directors holding office at 31 December 2018 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

DIRECTORS' REPORT

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the related companies) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate apart from the issue of the Performance Stock Unit Plan at the holding company.

ISSUE OF SHARES

There were no changes in the issued and paid-up capital of the Company during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year.

INDEMNITY AND INSURANCE COSTS

During the financial year, the total amount of indemnity given to and insurance effected for Directors of the Company is RM4,436,360 and RM38,610,000 respectively. The total amount of premium paid for the Directors' and Officers' Liability Insurance by the Group was RM16,381.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

OTHER STATUTORY INFORMATION (CONTINUED)

At the date of this report, the Directors are not aware of any circumstances:

- i) that would render the amount written off for bad debts or the amount of the provision for doubtful debts in the Group and in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

- i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, except for Note 28 to the financial statements, the financial performance of the Group and of the Company for the financial year ended 31 December 2018 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

DIRECTORS' REPORT

AUDITORS

The auditors, KPMG PLT, have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 18 to the financial statements.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

.....
Juan Jose Aranols Campillo
Chief Executive Officer

.....
Craig Grant Connolly
Chief Financial Officer

Petaling Jaya, Malaysia

26 February 2019

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2018

	Note	<-----Group----->			<-----Company----->	
		31.12.2018 RM'000	31.12.2017 RM'000 Restated	1.1.2017 RM'000 Restated	31.12.2018 RM'000	31.12.2017 RM'000
Assets						
Property, plant and equipment	3	1,245,564	1,295,464	1,273,203	-	-
Right-of-use assets	4	261,567	136,747	161,815	-	-
Intangible assets	5	67,546	61,986	62,400	-	-
Investments in subsidiaries	6	-	-	-	188,022	188,022
Investment in an associate	7	5,084	4,709	4,224	3,000	3,000
Deferred tax assets	8	30,572	20,523	22,766	-	-
Trade and other receivables	9	21,533	24,283	24,745	-	-
Total non-current assets		1,631,866	1,543,712	1,549,153	191,022	191,022
Trade and other receivables	9	605,414	580,847	544,307	404,244	393,354
Inventories	10	530,378	467,316	455,337	-	-
Current tax assets		163	12,333	6,396	-	-
Cash and cash equivalents	11	7,011	12,615	23,996	-	-
		1,142,966	1,073,111	1,030,036	404,244	393,354
Assets classified as held for sale	12	72,450	-	-	-	-
Total current assets		1,215,416	1,073,111	1,030,036	404,244	393,354
Total assets		2,847,282	2,616,823	2,579,189	595,266	584,376
Equity						
Share capital		267,500	267,500	234,500	267,500	267,500
Reserves		2,498	(9,172)	43,896	-	-
Retained earnings		384,335	377,566	368,036	325,994	315,426
Total equity attributable to owners of the Company	13	654,333	635,894	646,432	593,494	582,926
Liabilities						
Loans and borrowings	14	-	84,264	84,264	-	-
Lease liabilities	15	180,198	34,819	63,476	-	-
Employee benefits	16	95,282	89,749	86,140	-	-
Deferred tax liabilities	8	135,390	120,987	91,260	-	-
Total non-current liabilities		410,870	329,819	325,140	-	-
Loans and borrowings	14	180,304	305,631	179,753	-	-
Lease liabilities	15	26,778	29,052	42,463	-	-
Trade and other payables	17	1,527,276	1,296,619	1,385,299	1,691	1,425
Current tax liabilities		47,721	19,808	102	81	25
Total current liabilities		1,782,079	1,651,110	1,607,617	1,772	1,450
Total liabilities		2,192,949	1,980,929	1,932,757	1,772	1,450
Total equity and liabilities		2,847,282	2,616,823	2,579,189	595,266	584,376

The notes on pages 62 to 141 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Note	Group		Company	
		2018 RM'000	2017 RM'000 Restated	2018 RM'000	2017 RM'000
Revenue		5,519,045	5,260,490	657,020	645,175
Cost of sales		(3,381,380)	(3,309,386)	-	-
Gross profit		2,137,665	1,951,104	657,020	645,175
Other income		16,819	5,056	-	-
Selling and distribution expenses		(1,023,305)	(944,096)	-	-
Administrative expenses		(177,990)	(156,335)	(3,432)	(2,906)
Other expenses		(38,593)	(8,238)	(142)	(67)
Results from operating activities	18	914,596	847,491	653,446	642,202
Finance income		3,622	1,443	2,568	2,428
Finance costs		(43,123)	(37,503)	-	-
Net finance (costs)/income		(39,501)	(36,060)	2,568	2,428
Share of profit of an equity-accounted associate, net of tax		795	785	-	-
Profit before tax		875,890	812,216	656,014	644,630
Income tax expense	19	(217,008)	(169,666)	(571)	(955)
Profit for the year		658,882	642,550	655,443	643,675
Other comprehensive income/(expense), net of tax					
Item that is or may be reclassified subsequently to profit or loss					
Cash flow hedge		11,670	(20,068)	-	-
Item that will not be reclassified subsequently to profit or loss					
Remeasurement of defined benefit liability		(283)	130	-	-
Other comprehensive income/(expense) for the year, net of tax	20	11,387	(19,938)	-	-
Total comprehensive income for the year		670,269	622,612	655,443	643,675
Basic and diluted earnings per ordinary share (sen)	21	281	274		

The notes on pages 62 to 141 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

Group	Note	← Attributable to owners of the Company →				
		← Non-distributable →			Distributable	
		Share capital RM'000	Share premium RM'000	Hedging reserve RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2017, as previously reported		234,500	33,000	10,896	368,825	647,221
Adjustment on initial application of MFRS 16, net of tax		-	-	-	(789)	(789)
At 1 January 2017, restated		234,500	33,000	10,896	368,036	646,432
Cash flow hedge		-	-	(20,068)	-	(20,068)
Remeasurement of defined benefit liability		-	-	-	130	130
Other comprehensive (expense)/income for the year	20	-	-	(20,068)	130	(19,938)
Profit for the year		-	-	-	642,550	642,550
Total comprehensive (expense)/income for the year		-	-	(20,068)	642,680	622,612
Dividends to owners of the Company	22	-	-	-	(633,150)	(633,150)
Total transactions with owners of the Company		-	-	-	(633,150)	(633,150)
Transfer in accordance with Section 618(2) of the Companies Act 2016*		33,000	(33,000)	-	-	-
At 31 December 2017, restated		267,500	-	(9,172)	377,566	635,894
		Note 13		Note 13		

* In accordance with Section 618(2) of the Companies Act 2016, the share premium amounting to RM33,000,000 has become part of the Company's share capital.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Group	Note	Attributable to owners of the Company			
		Non-distributable		Distributable	
		Share capital RM'000	Hedging reserve RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2018, as previously reported		267,500	(9,172)	381,600	639,928
Adjustment on initial application of MFRS 16, net of tax		-	-	(4,034)	(4,034)
Adjustment on initial application of MFRS 9, net of tax		-	-	(6,955)	(6,955)
At 1 January 2018, restated		267,500	(9,172)	370,611	628,939
Cash flow hedge		-	11,670	-	11,670
Remeasurement of defined benefit liability		-	-	(283)	(283)
Other comprehensive income/(expense) for the year	20	-	11,670	(283)	11,387
Profit for the year		-	-	658,882	658,882
Total comprehensive income for the year		-	11,670	658,599	670,269
Dividends to owners of the Company	22	-	-	(644,875)	(644,875)
Total transactions with owners of the Company		-	-	(644,875)	(644,875)
At 31 December 2018		267,500	2,498	384,335	654,333

Note 13

Note 13

The notes on pages 62 to 141 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

Company	Note	← Attributable to owners of the Company →			
		Non-distributable		Distributable	
		Share capital RM'000	Share premium RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2017		234,500	33,000	304,901	572,401
Profit and total comprehensive income for the year		-	-	643,675	643,675
Dividends to owners of the Company	22	-	-	(633,150)	(633,150)
Total transactions with owners of the Company		-	-	(633,150)	(633,150)
Transfer in accordance with Section 618(2) of the Companies Act 2016*		33,000	(33,000)	-	-
At 31 December 2017/1 January 2018		267,500	-	315,426	582,926
Profit and total comprehensive income for the year		-	-	655,443	655,443
Dividends to owners of the Company	22	-	-	(644,875)	(644,875)
Total transactions with owners of the Company		-	-	(644,875)	(644,875)
At 31 December 2018		267,500	-	325,994	593,494

Note 13

* In accordance with Section 618(2) of the Companies Act 2016, the share premium amounting to RM33,000,000 has become part of the Company's share capital.

The notes on pages 62 to 141 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2018

	Note	Group		Company	
		2018 RM'000	2017 RM'000 Restated	2018 RM'000	2017 RM'000
Cash flows from operating activities					
Profit before tax		875,890	812,216	656,014	644,630
Adjustments for:					
Amortisation of intangible assets	5	414	414	-	-
Depreciation of property, plant and equipment	3	135,328	129,228	-	-
Amortisation of right-of-use assets	4	29,612	26,664	-	-
Dividend income		-	-	(657,020)	(645,175)
Expenses related to defined benefit plans	16	5,161	3,780	-	-
Finance costs		43,123	37,503	-	-
Finance income		(3,622)	(1,443)	(2,568)	(2,428)
Loss/(Gain) on disposal of property, plant and equipment	18	195	(184)	-	-
Gain on disposal of leasehold land		(7,410)	-	-	-
Net gain on divestment	28	(9,417)	-	-	-
Impairment loss on property, plant and equipment	3	-	1,798	-	-
Property, plant and equipment written off	18	1,534	203	-	-
Share-based payments	18	5,344	4,778	-	-
Share of profit of an equity-accounted associate, net of tax	7	(795)	(785)	-	-
Net unrealised foreign exchange differences	18	(5,866)	(378)	-	-
Others	28	(3,720)	-	-	-
Operating profit/(loss) before changes in working capital		1,065,771	1,013,794	(3,574)	(2,973)
Change in inventories		(63,994)	(11,979)	-	-
Change in trade and other payables		229,300	(101,347)	266	66
Change in trade and other receivables		(14,031)	(47,246)	97	(11,049)
Cash generated from/(used in) operations		1,217,046	853,222	(3,211)	(13,956)
Dividends received from subsidiaries		-	-	645,613	644,875
Income tax paid		(173,872)	(117,631)	(515)	(497)
Net cash from operating activities		1,043,174	735,591	641,887	630,422

STATEMENTS OF CASH FLOWS

	Note	Group		Company	
		2018 RM'000	2017 RM'000 Restated	2018 RM'000	2017 RM'000
Cash flows from investing activities					
Acquisition of intangible asset	5	(5,974)	-	-	-
Acquisition of property, plant and equipment	3	(145,671)	(164,455)	-	-
Dividends received from associate	7	420	300	420	300
Finance income received		3,622	1,443	2,568	2,428
Proceeds from divestment	28	14,200	-	-	-
Proceeds from disposal of leasehold land		12,827	-	-	-
Proceeds from disposal of property, plant and equipment		549	2,003	-	-
Net cash (used in)/from investing activities		(120,027)	(160,709)	2,988	2,728
Cash flows from financing activities					
Dividends paid to owners of the Company	22	(644,875)	(633,150)	(644,875)	(633,150)
Finance costs paid		(43,123)	(37,503)	-	-
Payment of lease liabilities	15	(31,360)	(43,664)	-	-
(Repayment of)/Proceeds from borrowings	14	(243,922)	277,882	-	-
Net cash used in financing activities		(963,280)	(436,435)	(644,875)	(633,150)
Net (decrease)/increase in cash and cash equivalents		(40,133)	138,447	-	-
Cash and cash equivalents at 1 January		(17,310)	(155,757)	-	-
Cash and cash equivalents at 31 December		(57,443)	(17,310)	-	-

Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise the following statements of financial position amounts:

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash and bank balances	11	7,011	12,615	-	-
Bank overdraft	14	(64,454)	(29,925)	-	-
		(57,443)	(17,310)	-	-

The notes on pages 62 to 141 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Nestlé (Malaysia) Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The address of its registered office, which is also its principal place of business, is as follows:

22-1, 22nd Floor, Menara Surian
No 1, Jalan PJU7/3
Mutiara Damansara
47810 Petaling Jaya
Selangor Darul Ehsan

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the “Group” and individually referred to as “Group entities”) and the Group’s interests in an associate. The financial statements of the Company as at and for the financial year ended 31 December 2018 do not include other entities.

The principal activity of the Company is that of an investment holding company, whilst the principal activities of the subsidiaries are as stated in Note 6 to the financial statements.

The holding company during the financial year was Nestlé S.A., a company incorporated in Switzerland.

The financial statements were authorised for issue by the Board of Directors on 26 February 2019.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Group and the Company have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRSs”), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The following are accounting standards, interpretations and amendments of the MFRSs that have been issued by the Malaysian Accounting Standards Board (“MASB”) but have not been adopted by the Group and the Company:

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation (continued)**(a) Statement of compliance (continued)*****MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2020***

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements*
- Amendments to MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group and the Company plan to apply the abovementioned interpretations and amendments:

- from the annual period beginning on 1 January 2019 for those interpretation and amendments that are effective for annual periods beginning on or after 1 January 2019, except for MFRS 11, *Joint Arrangements* which is not applicable to the Group and the Company; and
- from the annual period beginning on 1 January 2020 for those amendments that are effective for annual periods beginning on or after 1 January 2020.

The Group and the Company do not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on or after 1 January 2021 as it is not applicable to the Group and the Company.

The Group and the Company have early adopted MFRS 16, *Leases* for the financial year ended 31 December 2018, which is effective for annual periods beginning on or after 1 January 2019. This standard 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*. The financial impacts of the early adoption of MFRS 16 during the current financial year ended are as disclosed in Note 29 to the financial statements.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in Note 2.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (“RM”), which is the Company’s functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation (continued)

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 5 – Measurement of the recoverable amounts of cash-generating units
- Note 24.4 – Measurement of expected credit loss (“ECL”)

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by Group entities, unless otherwise stated.

Arising from the adoption of MFRS 15, *Revenue from Contracts with Customers*, MFRS 9, *Financial Instruments* and MFRS 16, *Leases*, there are changes to the accounting policies of:

- financial instruments;
- revenue recognition;
- impairment losses of financial instruments; and
- leases

as compared to those adopted in previous financial statements. The impacts arising from the changes are disclosed in Note 29.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**(a) Basis of consolidation (continued)****(i) Subsidiaries (continued)**

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

(ii) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as a financial asset depending on the level of influence retained.

(iii) Associates

Associates are entities, including unincorporated entities, in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses unless it is classified as held for sale or distribution. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the associates, after adjustments if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

When the Group ceases to have significant influence over an associate, any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of a financial asset. The difference between the fair value of any retained interest plus proceeds from the interest disposed of and the carrying amount of the investment at the date when equity method is discontinued is recognised in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iii) Associates (continued)

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not remeasured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

Investments in associates are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of equity instruments where they are measured at fair value through other comprehensive income, or a financial instrument designated as cash flow hedge, which are recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**(c) Financial instruments**

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the Group and the Company have elected not to restate the comparatives.

(i) Recognition and initial measurement

A financial asset or financial liability is recognised in the statement of financial position, when and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

Current financial year

A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

An embedded derivative is recognised separately from the host contract and where the host contract is not a financial asset, and accounted for separately if, and only if, the derivative is not closely related to the economic characteristics and risks of the host contract and the host contract is not measured at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

Previous financial year

Financial instrument was recognised initially, at its fair value plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that were directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative was recognised separately from the host contract and accounted for as a derivative if, and only if, it was not closely related to the economic characteristics and risks of the host contract and the host contract was not recognised as fair value through profit or loss. The host contract, in the event an embedded derivative was recognised separately, was accounted for in accordance with policy applicable to the nature of the host contract.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

Financial assets

Current financial year

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Group or the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

(a) Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 2(j)(i)) where the effective interest rate is applied to the amortised cost.

(b) Fair value through profit or loss

All financial assets not measured at amortised cost as described above are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a designated and effective hedging instrument). On initial recognition, the Group or the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value. Net gains or losses, including any interest or dividend income, are recognised in the profit or loss.

All financial assets, except for those measured at fair value through profit or loss, are subject to impairment assessment (see Note 2(j)(i)).

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

Previous financial year

In the previous financial year, financial assets of the Group and the Company were classified and measured under MFRS 139, *Financial Instruments: Recognition and Measurement* as follows:

(a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprised financial assets that were held for trading, including derivatives (except for a derivative that was a designated and effective hedging instrument), contingent consideration in a business combination or financial assets that were specifically designated into this category upon initial recognition.

Derivatives that were linked to and must be settled by delivery of unquoted equity instruments whose fair values could not be reliably measured were measured at cost.

Other financial assets categorised as fair value through profit or loss were subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(b) Loans and receivables

Loans and receivables category comprised debt instruments that were not quoted in an active market, trade and other receivables and cash and cash equivalents.

Financial assets categorised as loans and receivables were subsequently measured at amortised cost using the effective interest method.

All financial assets, except for those measured at fair value through profit or loss, were subject to review for impairment (Note 2(j)(i)).

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial liabilities

Current financial year

The categories of financial liabilities at initial recognition are as follows:

(a) Fair value through profit or loss

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a designated and effective hedging instrument), contingent consideration in a business combination and financial liabilities that are specifically designated into this category upon initial recognition.

On initial recognition, the Group or the Company may irrevocably designate a financial liability that otherwise meets the requirements to be measured at amortised cost as at fair value through profit or loss:

- a) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise;
- b) a group of financial liabilities or assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel; or
- c) if a contract contains one or more embedded derivatives and the host is not a financial asset in the scope of MFRS 9, where the embedded derivative significantly modifies the cash flows and separation is not prohibited.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair value with gains or losses, including any interest expense are recognised in the profit or loss.

For financial liabilities where it is designated as fair value through profit or loss upon initial recognition, the Group and the Company recognise the amount of change in fair value of the financial liability that is attributable to change in credit risk in the other comprehensive income and remaining amount of the change in fair value in the profit or loss, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

Financial liabilities (continued)

Current financial year (continued)

(b) Amortised cost

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses are also recognised in the profit or loss.

Previous financial year

In the previous financial year, financial liabilities of the Group and the Company were subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprised financial liabilities that were derivatives or financial liabilities that were specifically designated into this category upon initial recognition.

Financial liabilities categorised as fair value through profit or loss were subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(iii) Hedge accounting

At inception of a designated hedging relationship, the Group and the Company document the risk management objective and strategy for undertaking the hedge. The Group and the Company also document the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Hedge accounting (continued)

(a) Fair value hedge

Current financial year

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the profit or loss.

In a fair value hedge, the gain or loss on the hedging instrument shall be recognised in profit or loss (or other comprehensive income, if the hedging instrument hedges an equity instrument which the Group or the Company has elected to present the subsequent changes in fair value of the investment in equity in other comprehensive income).

The hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item and be recognised in profit or loss. If the hedged item is a financial asset (or a component thereof) that is measured at fair value through other comprehensive income, the hedging gain or loss on the hedged item shall be recognised in profit or loss. However, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income, those amounts shall remain in other comprehensive income. When a hedged item is an unrecognised firm commitment (or a component thereof), the cumulative change in the fair value of the hedged item subsequent to its designation is recognised as an asset or a liability with a corresponding gain or loss recognised in profit or loss.

Previous financial year

In the previous financial year, the gain or loss from remeasuring the hedging instrument at fair value or the foreign currency component of its carrying amount translated at the exchange rate prevailing at the end of the reporting period was recognised in profit or loss. The gain or loss on the hedged item, except for hedge item categorised as available-for-sale, attributable to the hedged risk was adjusted to the carrying amount of the hedged item and recognised in profit or loss. For a hedge item categorised as available-for-sale, the fair value gain or loss attributable to the hedge risk was recognised in profit or loss. Fair value hedge accounting was discontinued prospectively when the hedging instrument expired or was sold, terminated or exercised, the hedge was no longer highly effective or the hedge designation was revoked.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Hedge accounting (continued)

(b) Cash flow hedge

Current financial year

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability or a highly probable forecast transaction and could affect the profit or loss. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and accumulated in equity and the ineffective portion is recognised in profit or loss. The effective portion of changes in the fair value of the derivative that is recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge.

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the hedge item is a non-financial asset or liability, the associated gain or loss recognised in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into profit or loss immediately.

The Group designates only the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts ("forward points") and/or the foreign currency basis spread are separately accounted for as cost of hedging and recognised in a cost of hedging reserve within equity.

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve and the cost of hedging reserve remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Hedge accounting (continued)

(b) Cash flow hedge (continued)

Current financial year (continued)

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

Previous financial year

In the previous financial year, cost of hedging was expensed to profit or loss.

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or transferred, or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount of the financial asset and the sum of consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group or the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**(d) Property, plant and equipment****(i) Recognition and measurement**

Capital work-in-progress is stated at cost. All other property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other income" or "other expenses" respectively in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment from the date that they are available for use. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation (continued)

The estimated useful lives for the current and comparative periods are as follows:

- | | |
|----------------------------------|---------------|
| • buildings | 25 – 50 years |
| • plant and machinery | 10 – 25 years |
| • tools, furniture and equipment | 5 – 8 years |
| • motor vehicles | 5 years |
| • information systems | 3 – 10 years |

Depreciation methods, useful lives and residual values are reviewed at end of the reporting period, and adjusted as appropriate.

(e) Leases

The Group has applied MFRS 16, *Leases* using the full retrospective approach. The impact of the changes is disclosed in Note 29.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- a) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- b) the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- c) the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Group has the right to direct the use of the asset if either:
 - (i) the Group has the right to operate the asset; or
 - (ii) the Group has designed the asset in a way that predetermines how and for what purpose it will be used.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**(e) Leases (continued)**

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

As a lessee

The Group recognises a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The amortisation period for the current and comparative periods are as follows:

- | | |
|-----------------------|---------------|
| • leasehold land | 46 – 99 years |
| • buildings | 3 – 10 years |
| • tools and equipment | 5 – 8 years |

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise:

- a) fixed payments, including in-substance fixed payments;
- b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- c) amounts expected to be payable under a residual value guarantee; and
- d) the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an option renewal period of the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(e) Leases (continued)

As a lessee (continued)

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(f) Intangible assets

(i) Goodwill

Goodwill arising on business combinations is measured at cost less any accumulated impairment losses.

(ii) Development cost

Expenditure on development activities, whereby the application of research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalised includes the cost of materials, direct labour and overheads costs that are directly attributable to preparing the asset for its intended use. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less any accumulated amortisation and any accumulated impairment losses.

2. Significant accounting policies (continued)

(f) Intangible assets (continued)

(iii) Amortisation

Goodwill is not amortised but is tested for impairment annually and whenever there is an indication that it may be impaired.

Other intangible assets are amortised from the date that they are available for use. Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful lives of the development cost is 5 years.

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other cost incurred in bringing them to their existing location and condition. In the case of work-in-progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Non-current assets held for sale

Non-current assets, or disposal group comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale.

Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs of disposal.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(h) Non-current assets held for sale (continued)

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale are not amortised or depreciated.

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value with original maturities of three months or less, and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(j) Impairment

(i) Financial assets

Unless specifically disclosed below, the Group and the Company generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the Group and the Company elected not to restate the comparatives.

Current financial year

The Group and the Company recognise loss allowances for expected credit losses on financial assets measured at amortised cost. Expected credit losses are a probability-weighted estimate of credit losses.

The Group and the Company measure loss allowances at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, cash and bank balance and other debt securities for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss. Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information, where available.

2. Significant accounting policies (continued)

(j) Impairment (continued)

(i) Financial assets (continued)

Current financial year (continued)

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company are exposed to credit risk.

The Group and the Company estimate the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's or the Company's procedures for recovery amounts due.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(j) Impairment (continued)

(i) Financial assets (continued)

Previous financial year

All financial assets (except for financial assets categorised as fair value through profit or loss, investments in subsidiaries and investment in an associate) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

(ii) Other assets

The carrying amounts of other assets (except for inventories, deferred tax assets and non-current asset classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

2. Significant accounting policies (continued)

(j) Impairment (continued)

(ii) Other assets (continued)

Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (groups of cash-generating units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(k) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The Group's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(k) Employee benefits (continued)

(iii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense or income on the net defined liability or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments.

Net interest expense and other expenses relating to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer to those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(v) Share-based payment transactions

Performance Stock Unit Plan ("PSUP")

Certain employees of the Group are entitled to PSUP that gives the right to Nestlé S.A. shares. The fair value of the PSUP granted to these employees is recognised as an employee expense in profit or loss, over the period that the employees become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the vesting conditions are met.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**(l) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Restructuring

A provision for restructuring is recognised when the Group has approved a detailed formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(m) Revenue and other income**(i) Revenue**

Revenue is measured based on the consideration specified in a contract with a customer in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties, net of pricing allowance, other trade discounts and price promotions to customers. The Group recognises revenue when (or as) it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

The Group transfers control of a good or service at a point in time unless one of the following overtime criteria is met:

- a) the customer simultaneously receives and consumes the benefits provided as the Group performs;
- b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- c) the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

The Group is primarily engaged in the manufacturing and distribution of food and beverage products. Revenue of the Group is recognised at a point in time when it transfers control of the products to the customers. The Group has a range of credit terms which are typically short term, in line with market practice without any financing component.

(ii) Dividend income

Dividend income is recognised in profit or loss on the date that the Group's or the Company's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(m) Revenue and other income (continued)

(iii) Finance income

Finance income is recognised as it accrues using the effective interest method in profit or loss.

(n) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)**(o) Income tax (continued)**

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unutilised reinvestment allowance and investment tax allowance, being tax incentives that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against which the unutilised tax incentive can be utilised.

(p) Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares ("EPS").

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(q) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segment results are reviewed regularly by the chief operating decision maker, which in this case is the Group's Executive Board, to make decisions about resources to be allocated to the segment and to assess its performance and for which discrete financial information is available.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

(r) Fair value measurement

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

NOTES TO THE FINANCIAL STATEMENTS

3. Property, plant and equipment

Group	Leasehold land RM'000	Buildings RM'000	Plant and machinery, tools, furniture and equipment RM'000	Motor vehicles RM'000	Information systems RM'000	Capital work-in progress RM'000	Total RM'000
Cost							
At 1 January 2017,							
<i>as previously reported</i>	97,517	600,453	2,142,090	17,713	96,727	11,996	2,966,496
Adjustment on initial application of MFRS 16	(97,517)	-	-	-	-	-	(97,517)
At 1 January 2017, restated	-	600,453	2,142,090	17,713	96,727	11,996	2,868,979
Additions	-	12,876	106,705	974	7,213	36,687	164,455
Disposals	-	(182)	(21,000)	(1,461)	(478)	-	(23,121)
Written off	-	(11)	(17,426)	-	(379)	-	(17,816)
Transfer in/(out)*	-	648	(25,455)	-	382	(8,809)	(33,234)
At 31 December 2017/ 1 January 2018, restated	-	613,784	2,184,914	17,226	103,465	39,874	2,959,263
Additions	-	10,092	107,803	1,972	13,806	11,998	145,671
Disposals	-	(6)	(11,883)	(1,917)	(2,337)	-	(16,143)
Written off	-	(25)	(19,096)	-	(610)	-	(19,731)
Transfer in/(out)	-	4,672	6,886	-	504	(12,062)	-
Transfer to assets classified as held for sale	-	(43,227)	(103,494)	-	(4,333)	-	(151,054)
At 31 December 2018	-	585,290	2,165,130	17,281	110,495	39,810	2,918,006

* Reclassification to operating lease.

NOTES TO THE FINANCIAL STATEMENTS

3. Property, plant and equipment (continued)

Group	Leasehold land RM'000	Buildings RM'000	Plant and machinery, tools, furniture and equipment RM'000	Motor vehicles RM'000	Information systems RM'000	Capital work-in progress RM'000	Total RM'000
Depreciation and impairment loss							
At 1 January 2017, as previously reported							
Accumulated depreciation	17,670	161,385	1,327,375	10,332	70,724	-	1,587,486
Accumulated impairment loss	-	6,360	19,397	-	203	-	25,960
	17,670	167,745	1,346,772	10,332	70,927	-	1,613,446
Adjustment on initial application of MFRS 16	(17,670)	-	-	-	-	-	(17,670)
At 1 January 2017, restated							
Accumulated depreciation	-	161,385	1,327,375	10,332	70,724	-	1,569,816
Accumulated impairment loss	-	6,360	19,397	-	203	-	25,960
	-	167,745	1,346,772	10,332	70,927	-	1,595,776
Depreciation for the year	-	17,886	100,595	1,800	8,947	-	129,228
Impairment loss	-	6	1,757	-	35	-	1,798
Disposals	-	(58)	(19,789)	(1,169)	(286)	-	(21,302)
Written off	-	(4)	(17,233)	-	(376)	-	(17,613)
Transfer out*	-	-	(24,088)	-	-	-	(24,088)
At 31 December 2017, restated							
Accumulated depreciation	-	179,209	1,366,860	10,963	79,009	-	1,636,041
Accumulated impairment loss	-	6,366	21,154	-	238	-	27,758
	-	185,575	1,388,014	10,963	79,247	-	1,663,799

* Reclassification to operating lease.

NOTES TO THE FINANCIAL STATEMENTS

3. Property, plant and equipment (continued)

Group	Leasehold land RM'000	Buildings RM'000	Plant and machinery, tools, furniture and equipment RM'000	Motor vehicles RM'000	Information systems RM'000	Capital work-in progress RM'000	Total RM'000
Depreciation and impairment loss							
At 1 January 2018, restated							
Accumulated depreciation	-	179,209	1,366,860	10,963	79,009	-	1,636,041
Accumulated impairment loss	-	6,366	21,154	-	238	-	27,758
	-	185,575	1,388,014	10,963	79,247	-	1,663,799
Depreciation for the year	-	18,504	106,358	1,743	8,723	-	135,328
Disposals	-	(2)	(11,517)	(1,553)	(2,196)	-	(15,268)
Written off	-	(7)	(17,588)	-	(602)	-	(18,197)
Transfer to assets classified as held for sale	-	(13,712)	(76,416)	-	(3,092)	-	(93,220)
At 31 December 2018							
Accumulated depreciation	-	183,992	1,367,697	11,153	81,842	-	1,644,684
Accumulated impairment loss	-	6,366	21,154	-	238	-	27,758
	-	190,358	1,388,851	11,153	82,080	-	1,672,442
Carrying amounts							
At 1 January 2017, restated	-	432,708	795,318	7,381	25,800	11,996	1,273,203
At 31 December 2017/ 1 January 2018, restated	-	428,209	796,900	6,263	24,218	39,874	1,295,464
At 31 December 2018	-	394,932	776,279	6,128	28,415	39,810	1,245,564

Impairment loss

During the year, the Group has not recognised any impairment loss (2017: RM1,798,000) in respect of plant and equipment based on the recoverable amount of the assets.

NOTES TO THE FINANCIAL STATEMENTS

4. Right-of-use assets

Leases as lessee

The Group leases many assets including land, buildings, tools and equipment. Information about leases for which the Group is a lessee is presented below.

Group	Leasehold land RM'000	Buildings RM'000	Tools and equipment RM'000	Total RM'000
Cost				
At 1 January 2017, as previously reported	-	-	-	-
Adjustments on initial application of MFRS 16	97,517	312,255	26,242	436,014
At 1 January 2017, restated	97,517	312,255	26,242	436,014
Additions	-	666	930	1,596
Expiration of lease contracts	-	(3,155)	-	(3,155)
At 31 December 2017/1 January 2018, restated	97,517	309,766	27,172	434,455
Additions	-	174,465	-	174,465
Expiration of lease contracts	-	(212,296)	-	(212,296)
Disposals	(7,489)	-	-	(7,489)
Transfer to assets classified as held for sale	(20,070)	-	-	(20,070)
At 31 December 2018	69,958	271,935	27,172	369,065

NOTES TO THE FINANCIAL STATEMENTS

4. Right-of-use assets (continued)

Leases as lessee (continued)

Group	Leasehold land RM'000	Buildings RM'000	Tools and equipment RM'000	Total RM'000
Amortisation				
At 1 January 2017, as previously reported	-	-	-	-
Adjustments on initial application of MFRS 16	17,670	253,742	2,787	274,199
At 1 January 2017, restated	17,670	253,742	2,787	274,199
Amortisation for the year	1,659	21,159	3,846	26,664
Expiration of lease contracts	-	(3,155)	-	(3,155)
At 31 December 2017/1 January 2018, restated	19,329	271,746	6,633	297,708
Amortisation for the year	1,647	24,097	3,868	29,612
Expiration of lease contracts	-	(212,296)	-	(212,296)
Disposals	(2,072)	-	-	(2,072)
Transfer to assets classified as held for sale	(5,454)	-	-	(5,454)
At 31 December 2018	13,450	83,547	10,501	107,498
Carrying amounts				
At 1 January 2017, restated	79,847	58,513	23,455	161,815
At 31 December 2017/1 January 2018, restated	78,188	38,020	20,539	136,747
At 31 December 2018	56,508	188,388	16,671	261,567

The Group leases buildings for its office space, distribution centre and retail stores. The leases of office space and distribution centres typically run for a period of ten years and retail stores for three to five years. The lease of office space and distribution centre include an option to renew the lease for an additional period of two terms of three years after the end of the contract term.

NOTES TO THE FINANCIAL STATEMENTS

5. Intangible assets

Group	Goodwill	Development	Total
	RM'000	cost	RM'000
		RM'000	RM'000
Cost			
At 1 January 2017/31 December 2017/1 January 2018	61,024	2,065	63,089
Additions	-	5,974	5,974
At 31 December 2018	61,024	8,039	69,063
Amortisation			
At 1 January 2017	-	689	689
Amortisation for the year	-	414	414
At 31 December 2017/1 January 2018	-	1,103	1,103
Amortisation for the year	-	414	414
At 31 December 2018	-	1,517	1,517
Carrying amounts			
At 1 January 2017	61,024	1,376	62,400
At 31 December 2017/1 January 2018	61,024	962	61,986
At 31 December 2018	61,024	6,522	67,546

The goodwill relates to the Group's ice-cream business unit. The development cost relates to the enhancement of the Group's SAP HANA and Globe Landscape Simplification ("GLS") system.

Impairment testing

The recoverable amount of the ice-cream business unit is higher than its carrying amount and was based on the value in use.

Value in use was determined by discounting the future cash flows generated from the continuing operation of the ice-cream business unit and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and financial budgets approved by management covering a 3-year business plan.
- The anticipated revenue growth rate for the 3-year business plan is estimated to be 5% to 7% per annum (2017: 4% to 10% per annum).
- The unit will continue its operations indefinitely with earnings before interest and tax ("EBIT") terminal growth rate of 1% per annum.
- A discount rate of 7.0% (2017: 7.0%) was applied.
- The size of operations will remain with at least or not lower than the current results.

The key assumptions represent management's assessment of future trends in the ice-cream industry and are based on both external sources and internal sources (historical data).

NOTES TO THE FINANCIAL STATEMENTS

6. Investments in subsidiaries

	Company	
	2018	2017
At cost	RM'000	RM'000
Unquoted shares	188,022	188,022

Details of the subsidiaries are as follows:

Name of entity	Principal place of business/ Country of incorporation	Principal activities	Effective ownership interest and voting interest	
			2018	2017
			%	%
Nestlé Products Sdn. Bhd.	Malaysia	Marketing and sales of ice-cream, powdered milk and drinks, liquid milk and juices, instant coffee and other beverages, chocolate confectionery products, instant noodles, culinary products, cereals, yogurt and related products	100	100
Nestlé Manufacturing (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing and sales of ice-cream, powdered milk and drinks, liquid milk and juices, instant coffee and other beverages, instant noodles, culinary products, cereals, yogurt and related products	100	100
Nestlé Asean (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing and sales of chocolate confectionery products	100	100
Nestlé Foods (Malaysia) Sdn. Bhd.	Malaysia	Ceased operations	100	100

NOTES TO THE FINANCIAL STATEMENTS

7. Investment in an associate

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At cost				
Unquoted shares	3,000	3,000	3,000	3,000
Share of post-acquisition reserves	2,084	1,709	-	-
	5,084	4,709	3,000	3,000

Details of the associate are as follows:

Name of entity	Principal place of business/ Country of incorporation	Principal activities	Effective ownership interest and voting interest	
			2018 %	2017 %
Nihon Canpack (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing and sales of canned beverages	20	20

The following table summarises the information of the Group's material associate, adjusted for any differences in accounting policies and reconciles the information to the carrying amount of the Group's interest in the associate.

Group	2018 RM'000	2017 RM'000
Summarised financial information		
As at 31 December		
Non-current assets	33,241	33,940
Current assets	27,515	21,820
Current liabilities	(35,338)	(32,215)
Net assets	25,418	23,545
Year ended 31 December		
Profit/Total comprehensive income for the year	3,976	3,925
Included in the total comprehensive income is:		
Revenue	229,658	214,434
Group's share of results for the year ended 31 December		
Group's share of profit/total comprehensive income	795	785
Other information		
Dividends received by the Group	420	300

NOTES TO THE FINANCIAL STATEMENTS

8. Deferred tax assets/(liabilities)**Recognised deferred tax assets/(liabilities)**

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2018 RM'000	2017 RM'000 Restated	2018 RM'000	2017 RM'000 Restated	2018 RM'000	2017 RM'000 Restated
Property, plant and equipment	-	-	(154,846)	(142,164)	(154,846)	(142,164)
Leases	429	1,279	-	-	429	1,279
Employee benefit plans	25,490	23,774	-	-	25,490	23,774
Provisions	24,818	13,750	(20)	-	24,798	13,750
Hedging reserve	333	2,897	(1,022)	-	(689)	2,897
Tax assets/(liabilities)	51,070	41,700	(155,888)	(142,164)	(104,818)	(100,464)
Set off of tax	(20,498)	(21,177)	20,498	21,177	-	-
Net tax assets/(liabilities)	30,572	20,523	(135,390)	(120,987)	(104,818)	(100,464)

Movement in temporary differences during the year

Group	At 1.1.2017 RM'000 Restated	Recognised in profit or loss (Note 19) RM'000	Recognised in other comprehensive income (Note 20) RM'000	At 31.12.2017/ 1.1.2018 RM'000 Restated	MFRS 9 adjustment RM'000	At 1.1.2018 RM'000 Restated	Recognised in profit or loss (Note 19) RM'000	Recognised in other comprehensive income (Note 20) RM'000	At 31.12.2018 RM'000
	Property, plant and equipment	(134,400)	(7,764)	-	(142,164)	-	(142,164)	(12,682)	-
Leases	2,611	(1,332)	-	1,279	-	1,279	(850)	-	429
Employee benefit plans	23,815	-	(41)	23,774	-	23,774	1,627	89	25,490
Provisions	23,136	(9,386)	-	13,750	2,196	15,946	8,852	-	24,798
Hedging reserve	(3,440)	-	6,337	2,897	-	2,897	-	(3,586)	(689)
Unutilised tax incentives	19,784	(19,784)	-	-	-	-	-	-	-
	(68,494)	(38,266)	6,296	(100,464)	2,196	(98,268)	(3,053)	(3,497)	(104,818)

NOTES TO THE FINANCIAL STATEMENTS

9. Trade and other receivables

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Non-current					
Loans to employees		21,533	24,283	-	-
Current					
Trade					
Trade receivables		253,957	264,336	-	-
Less: Impairment loss		(35,599)	(12,194)	-	-
		218,358	252,142	-	-
Amounts due from related companies	9.1	202,612	147,777	-	-
Amount due from an associate	9.1	2	1,058	-	-
Designated as hedging instruments					
- Commodity futures		179	1,847	-	-
- Forward exchange contracts		7,779	9,507	-	-
		428,930	412,331	-	-
Non-trade					
Amounts due from subsidiaries	9.2	-	-	404,233	393,246
Amounts due from related companies	9.1	79,167	58,660	-	-
Other receivables, deposits and prepayments	9.3	97,317	109,856	11	108
		176,484	168,516	404,244	393,354
		605,414	580,847	404,244	393,354
		626,947	605,130	404,244	393,354

9.1 Amounts due from related companies and an associate

The trade receivables due from related companies and an associate are subject to the normal trade terms. The non-trade receivables due from related companies are advances to related companies which are unsecured, subject to interest at 3.23% to 4.91% (2017: 3.07% to 3.25%) per annum and repayable on demand.

9.2 Amounts due from subsidiaries

The non-trade receivables due from subsidiaries are unsecured, interest free and repayable on demand, except for advances to a subsidiary of RM75,933,000 (2017: RM76,671,000) which is subject to interest at 3.13% to 3.38% (2017: 3.07% to 3.13%) per annum.

9.3 Other receivables, deposits and prepayments

Included in other receivables, deposits and prepayments of the Group are loans to employees of RM12,024,000 (2017: RM13,154,000) which are unsecured and interest free and down payment to vendors of RM14,066,000 (2017: RM13,501,000).

NOTES TO THE FINANCIAL STATEMENTS

10. Inventories

	Group	
	2018	2017
	RM'000	RM'000
Raw and packaging materials	204,214	193,127
Work-in-progress	32,875	29,886
Finished goods	262,218	215,147
Spare parts	31,071	29,156
	530,378	467,316
Recognised in profit or loss		
- Inventories recognised as cost of sales	3,022,148	2,992,944

11. Cash and cash equivalents

	Group	
	2018	2017
	RM'000	RM'000
Cash and bank balances	7,011	12,615

12. Assets classified as held for sale

On 9 October 2018, the Group has entered into a business transfer agreement to dispose of the Petaling Jaya factory by 1 July 2019 (see Note 28). The assets of the disposal group are as follows:

	Note	Group
		2018
		RM'000
Assets classified as held for sale		
Leasehold land	4	14,616
Property, plant and equipment	3	57,834
		72,450

The carrying value of leasehold land and property, plant and equipment above is the same as its carrying value before it was being reclassified to current assets.

NOTES TO THE FINANCIAL STATEMENTS

13. Capital and reserves

	Group and Company			
	Amount	Number of	Amount	Number of
	2018	shares	2017	shares
	RM'000	'000	RM'000	'000
Share capital				
Ordinary shares, issued and fully paid:				
At 1 January	267,500	234,500	234,500	234,500
Transfer from share premium in accordance with Section 618(2) of the Companies Act 2016 (Note 13.1)	-	-	33,000	-
At 31 December	267,500	234,500	267,500	234,500

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Note 13.1

In accordance with Section 618(2) of the Companies Act 2016, the share premium amounting to RM33,000,000 has become part of the Company's share capital.

Hedging reserve

Hedging reserve relates to the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet occurred.

14. Loans and borrowings

	Group	
	2018	2017
	RM'000	RM'000
Non-current		
Loan from a related company – unsecured	-	84,264
Current		
Bank overdraft – unsecured	64,454	29,925
Loan from a related company – unsecured	115,850	275,706
	180,304	305,631
	180,304	389,895

NOTES TO THE FINANCIAL STATEMENTS

14. Loans and borrowings (continued)**14.1 Reconciliation of movement of liabilities to cash flows arising from financing activities**

	At 1 January 2017 RM'000	Net changes from financing cash flows RM'000	Foreign exchange movement RM'000	At 31 December 2017 RM'000
Group				
Loan from a related company	84,264	277,882	(2,176)	359,970

	At 1 January 2018 RM'000	Net changes from financing cash flows RM'000	Foreign exchange movement RM'000	At 31 December 2018 RM'000
Group				
Loan from a related company	359,970	(243,922)	(198)	115,850

15. Lease liabilities

	Group	
	2018 RM'000	2017 RM'000 Restated
Non-current		
Lease liabilities	180,198	34,819
Current		
Lease liabilities	26,778	29,052
	206,976	63,871

NOTES TO THE FINANCIAL STATEMENTS

15. Lease liabilities (continued)
15.1 Reconciliation of movement of liabilities to cash flows arising from financing activities

Group	At 1 January	Net changes	Additions	At 31 December
	2017	from financing		2017
	RM'000	cash flows	RM'000	RM'000
	Restated	RM'000		Restated
Lease liabilities	105,939	(43,664)	1,596	63,871

Group	At 1 January	Net changes	Additions	At 31 December
	2018	from financing		2018
	RM'000	cash flows	RM'000	RM'000
		RM'000		
Lease liabilities	63,871	(31,360)	174,465	206,976

16. Employee benefits
16.1 Retirement benefits

	Group	
	2018	2017
	RM'000	RM'000
Net defined benefit liability/Total employee benefits liabilities	95,282	89,749

The Group operates a defined benefit scheme which is administered by Nestlé Malaysia Group Retirement Scheme ("NMGRS").

The Scheme provides non-indexed retirement pensions to employees who had been in the Group service before 1 January 1992, based on a percentage of final pay and with total EPF benefits derived from employee and employer contributions made throughout the period of EPF membership integrated thereto.

In 2017, the Group has offered a conversion of monthly pension to one-off lump sums payment in order to reduce the liabilities. Approximately 50% of the pensioners elected to accept the lump sums payment in exchange for their monthly pension on 30 April 2017. The entire payments were made in May 2017.

NOTES TO THE FINANCIAL STATEMENTS

16. Employee benefits (continued)**16.1 Retirement benefits (continued)****Funding**

The plan is funded by NMGRS and in the event of deficit, it will be supported by the Group's subsidiaries. The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. Employees are not required to contribute to the plans.

NMGRS expects to pay RM9,217,000 in contributions to defined benefit plans in 2019.

Movement in net defined benefit liability

The following table shows a reconciliation from the opening balance to the closing balance for net defined benefit liability and its components:

Group	Defined benefit obligation RM'000	Fair value of plan assets RM'000	Net defined benefit liability RM'000
At 1 January 2018	101,506	(11,757)	89,749
Included in profit or loss			
Interest cost/(income)	5,572	(411)	5,161
Included in other comprehensive income			
Remeasurement loss:			
Actuarial loss arising from experience adjustments	821	(449)	372
Others			
Benefits paid	(10,187)	10,187	-
At 31 December 2018	97,712	(2,430)	95,282

NOTES TO THE FINANCIAL STATEMENTS

16. Employee benefits (continued)
16.1 Retirement benefits (continued)
Movement in net defined benefit liability (continued)

Group	Defined benefit obligation RM'000	Fair value of plan assets RM'000	Net defined benefit liability RM'000
At 1 January 2017	179,072	(92,932)	86,140
Included in profit or loss			
Interest cost/(income)	9,838	(4,885)	4,953
Curtailment gain	(1,173)	-	(1,173)
	8,665	(4,885)	3,780
Included in other comprehensive income			
Remeasurement loss:			
Actuarial loss arising from experience adjustments	(1,147)	-	(1,147)
Return on plan assets, excluding interest income	-	976	976
	(1,147)	976	(171)
Others			
Benefits paid	(85,084)	85,084	-
At 31 December 2017	101,506	(11,757)	89,749

Plan assets

Plan assets comprise:

	Group	
	2018 RM'000	2017 RM'000
Government bonds	-	10,164
Cash and cash equivalents	87	453
Others	2,343	1,140
	2,430	11,757

NOTES TO THE FINANCIAL STATEMENTS

16. Employee benefits (continued)**16.1 Retirement benefits (continued)****Defined benefit obligation****Actuarial assumptions**

Principal actuarial assumptions at the end of the reporting period (expressed as weighted averages):

	Group	
	2018	2017
Discount rate	5.75%	5.75%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 65 is 17.1 years for both males and females at the end of the reporting date.

At 31 December 2018, the weighted-average duration of the defined benefit obligation was 9.32 years.

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

Group	Defined benefit obligation	
	Increase RM'000	Decrease RM'000
2018		
Discount rate (0.5% movement)	(3,894)	4,190
Future pension growth (0.5% movement)	487	(487)
Future mortality (1 year movement)	(1,757)	1,730
2017		
Discount rate (0.5% movement)	(4,207)	4,539
Future pension growth (0.5% movement)	506	(506)
Future mortality (1 year movement)	(2,606)	2,562

Although the analysis does not account for the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

NOTES TO THE FINANCIAL STATEMENTS

17. Trade and other payables

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Trade					
Trade payables		1,066,054	903,819	54	158
Amounts due to related companies	17.1	194,510	114,052	-	-
Amount due to an associate	17.1	7,190	5,817	-	-
Designated as hedging instruments					
- Commodity futures		711	5,529	-	-
- Forward exchange contracts		4,893	36,058	-	-
		1,273,358	1,065,275	54	158
Non-trade					
Amounts due to related companies	17.1	64,771	44,864	-	-
Other payables		48,194	68,971	-	5
Accrued expenses		140,953	117,509	1,637	1,262
		253,918	231,344	1,637	1,267
		1,527,276	1,296,619	1,691	1,425

17.1 Amounts due to related companies and an associate

The trade payables due to related companies and an associate are subject to the normal trade terms. The non-trade payables due to related companies are unsecured, interest free and repayable on demand, except for advances from related companies of RM63,198,000 (2017: RM43,746,000) which is subject to interest at 3.13% to 3.38% (2017: 3.07% to 3.23%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

18. Results from operating activities

	Note	Group		Company	
		2018 RM'000	2017 RM'000 Restated	2018 RM'000	2017 RM'000
Results from operating activities is arrived at after charging:					
Auditors' remuneration					
- Statutory audit					
KPMG in Malaysia		490	446	174	162
- Other services					
KPMG in Malaysia		45	104	18	104
Affiliates of KPMG in Malaysia		29	29	2	2
Amortisation of intangible assets	5	414	414	-	-
Amortisation of right-of-use assets	4	29,612	26,664	-	-
Depreciation of property, plant and equipment	3	135,328	129,228	-	-
Impairment loss on property, plant and equipment	3	-	1,798	-	-
Loss on disposal of property, plant and equipment		195	-	-	-
Net foreign exchange loss					
- Realised		12,254	-	2	1
Net impairment loss on trade receivables		14,253	1,470	-	-
Personnel expenses (including key management personnel):					
- Contributions to Employees Provident Fund		59,076	57,628	-	-
- Share-based payments		5,344	4,778	-	-
- Wages, salaries and others		546,561	523,586	-	-
Property, plant and equipment written off		1,534	203	-	-
Restructuring and rationalisation cost		17,535	6,023	-	-
Interest on lease liabilities		5,185	1,502	-	-
Expenses relating to short-term leases		42,376	33,860	-	-
and after crediting:					
Dividend income from					
- Subsidiaries (unquoted)		-	-	656,600	644,875
- Associate (unquoted)		-	-	420	300
Gain on disposal of leasehold land		7,410	-	-	-
Gain on disposal of property, plant and equipment		-	184	-	-
Net gain on divestment	28	9,417	-	-	-
Net foreign exchange gain					
- Realised		-	6,816	-	-
- Unrealised		5,866	378	-	-

NOTES TO THE FINANCIAL STATEMENTS

19. Income tax expense

	Group		Company	
	2018 RM'000	2017 RM'000 Restated	2018 RM'000	2017 RM'000
Recognised in profit or loss				
Income tax expense	217,008	169,666	571	955
Major components of income tax expense include:				
Current tax expense				
Malaysian - current year	212,990	132,888	451	582
- prior year	965	(1,488)	120	373
Total current tax recognised in profit or loss	213,955	131,400	571	955
Deferred tax expense				
Reversal and origination of temporary differences	(716)	36,171	-	-
Under provided in prior years	3,769	2,095	-	-
Total deferred tax recognised in profit or loss	3,053	38,266	-	-
Total income tax expense	217,008	169,666	571	955
Reconciliation of tax expense				
Profit for the year	658,882	642,550	655,443	643,675
Total income tax expense	217,008	169,666	571	955
Profit before tax	875,890	812,216	656,014	644,630
Income tax calculated using Malaysian tax rate of 24%	210,214	194,932	157,443	154,711
Non-deductible expenses	4,774	3,339	693	713
Tax exempt income	-	-	(157,685)	(154,842)
Tax incentives	(5,806)	(22,352)	-	-
Reduction of income tax rate based on the increase in chargeable business income*	(16)	(5,605)	-	-
Other items	3,108	(1,255)	-	-
	212,274	169,059	451	582
Under/(Over) provided in prior years				
- Current tax	965	(1,488)	120	373
- Deferred tax	3,769	2,095	-	-
	4,734	607	120	373
	217,008	169,666	571	955

* Income Tax (Exemption) (No. 2) Order 2018 has been gazetted to provide companies which achieve an incremental chargeable income (subject to fulfilment of conditions) to enjoy a reduction of their income tax rate of up to 4% for YA 2017 and YA 2018.

NOTES TO THE FINANCIAL STATEMENTS

20. Other comprehensive income/(expense)

Group	← 2018 →			← 2017 →		
	Before tax RM'000	Tax (expense)/ benefit RM'000	Net of tax RM'000	Before tax RM'000	Tax benefit/ (expense) RM'000	Net of tax RM'000
Item that is or may be reclassified subsequently to profit or loss						
Cash flow hedge						
- Gains/(Losses) arising during the year	17,302	(4,077)	13,225	(33,025)	7,926	(25,099)
- Reclassification adjustments for losses included in profit or loss	(2,046)	491	(1,555)	6,620	(1,589)	5,031
	15,256	(3,586)	11,670	(26,405)	6,337	(20,068)
Item that will not be reclassified subsequently to profit or loss						
Remeasurement of defined benefit liability	(372)	89	(283)	171	(41)	130
	14,884	(3,497)	11,387	(26,234)	6,296	(19,938)

NOTES TO THE FINANCIAL STATEMENTS

21. Earnings per ordinary share – basic and diluted

The calculation of earnings per ordinary share for the year ended 31 December 2018 was based on the profit attributable to ordinary shareholders of RM658.8 million (restated 2017: RM642.6 million) and 234.5 million (2017: 234.5 million) ordinary shares outstanding during the year.

22. Dividends

Dividends recognised by the Company:

	Sen per share	Total amount RM'000	Date of payment
2018			
Final 2017 ordinary	135	316,575	31 May 2018
Interim 2018 ordinary - first	70	164,150	27 September 2018
- second	70	164,150	13 December 2018
Total amount		644,875	
2017			
Final 2016 ordinary	130	304,850	8 June 2017
Interim 2017 ordinary - first	70	164,150	21 September 2017
- second	70	164,150	14 December 2017
Total amount		633,150	

After the end of the reporting period, the following dividend was proposed by the Directors. This dividend will be recognised in subsequent financial period upon approval by the owners of the Company.

	Sen per share	Total amount RM'000
Final 2018 ordinary	140	328,300

NOTES TO THE FINANCIAL STATEMENTS

23. Operating segments

The Group has two reportable operating segments – Food and beverages and Others which include Nutrition, Nestlé Professional, Nespresso and Nestlé Health Science.

Nutrition, Nestlé Professional, Nespresso and Nestlé Health Science are considered as Globally Managed Businesses (“GMB”). All the GMB are grouped together as the Others segment.

Performance is measured based on segment operating profit, as included in the internal management reports that are reviewed by the Group’s Executive Board, who is the Group’s chief operating decision maker. Segment operating profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of the segments that operate within the Group.

Segment assets and liabilities information are not regularly provided to the Executive Board. Hence, no disclosure is made on segment assets and liabilities.

Group	Food and beverages		Others		Total	
	2018 RM’000	2017 RM’000 Restated	2018 RM’000	2017 RM’000 Restated	2018 RM’000	2017 RM’000 Restated
Segment revenue and results						
Revenue	4,427,010	4,225,676	1,092,035	1,034,814	5,519,045	5,260,490
Operating profit	744,937	698,109	169,884	149,411	914,821	847,520
<i>Included in the measure of segment operating profit are:</i>						
Depreciation of property, plant and equipment	119,365	114,396	15,963	14,832	135,328	129,228

Reconciliations of reportable segment profit or loss

	Group	
	2018 RM’000	2017 RM’000 Restated
Profit or loss		
Total profit for reportable segments	914,821	847,520
Finance costs	(43,123)	(37,503)
Finance income	3,622	1,443
Other unallocated expenses	(225)	(29)
Share of profit of an associate not included in reportable segments	795	785
Consolidated profit before tax	875,890	812,216

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments

24.1 Categories of financial instruments

The table below provides an analysis of financial instruments as at 31 December 2018 categorised as follows:

- (a) Amortised cost (“AC”); and
- (b) Derivatives designated as hedging instruments.

2018	Carrying amount RM'000	AC RM'000	Derivatives designated as hedging instruments RM'000
Financial assets			
Group			
Trade and other receivables	618,321	610,363	7,958
Cash and cash equivalents	7,011	7,011	-
	625,332	617,374	7,958
Company			
Trade and other receivables	404,244	404,244	-
Financial liabilities			
Group			
Loans and borrowings	(180,304)	(180,304)	-
Trade and other payables	(1,527,276)	(1,521,672)	(5,604)
Lease liabilities	(206,976)	(206,976)	-
	(1,914,556)	(1,908,952)	(5,604)
Company			
Trade and other payables	(1,691)	(1,691)	-

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)**24.1 Categories of financial instruments (continued)**

The table below provides an analysis of financial instruments as at 31 December 2017 categorised as follows:

- (a) Loans and receivables (“L&R”);
- (b) Other financial liabilities measured at amortised cost (“OL”); and
- (c) Derivatives designated as hedging instruments.

	Carrying amount RM'000 Restated	L&R/(OL) RM'000 Restated	Derivatives designated as hedging instruments RM'000
2017			
Financial assets			
Group			
Trade and other receivables	597,651	586,297	11,354
Cash and cash equivalents	12,615	12,615	-
	610,266	598,912	11,354
Company			
Trade and other receivables	393,354	393,354	-
Financial liabilities			
Group			
Loans and borrowings	(389,895)	(389,895)	-
Trade and other payables	(1,296,619)	(1,255,032)	(41,587)
Lease liabilities	(63,871)	(63,871)	-
	(1,750,385)	(1,708,798)	(41,587)
Company			
Trade and other payables	(1,425)	(1,425)	-

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.2 Net gains and losses arising from financial instruments

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Net gains/(losses) on:				
Fair value through profit or loss				
- Designated upon initial recognition	2,355	(6,508)	-	-
Financial assets at amortised cost				
- Mandatorily required by MFRS 9	(10,605)	-	2,568	-
Loans and receivables	-	(27)	-	2,428
Financial liabilities measured at amortised cost	(43,111)	(31,670)	(2)	(1)
	(51,361)	(38,205)	2,566	2,427

24.3 Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

24.4 Credit risk

Credit risk is the risk of a financial loss to the Group or the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from the individual characteristics of each customer. The Group does not foresee any credit risk arising from amounts due from related companies. The Company's exposure to credit risk arises mainly from amounts due from subsidiaries. There are no significant changes as compared to prior periods.

24. Financial instruments (continued)

24.4 Credit risk (continued)

Receivables

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount with clear approving authority and limits. Certain customers are required to have collateral in the form of financial assets and/or bank guarantees.

At each reporting date, the Group or the Company assesses whether any of the trade receivables are credit impaired.

The gross carrying amounts of credit impaired trade receivables are written off (either partially or full) when there is no realistic prospect of recovery. This is generally the case when the Group or the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Nevertheless, trade receivables that are written off could still be subject to enforcement activities.

There are no significant changes as compared to previous year.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

The Group receives financial guarantees given by banks, shareholders or directors of customers in managing exposure to credit risks.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Group. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 60 days, which are deemed to have higher credit risk, are monitored individually.

Receivables are partially secured either by bank guarantees or traded shares. As at the end of the reporting period, the total collateral assigned to the Group was RM59,681,000 (2017: RM60,169,000).

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.4 Credit risk (continued)

Receivables (continued)

Recognition and measurement of impairment loss

In managing credit risk of trade receivables, the Group manages its debtors and takes appropriate actions (including but not limited to legal actions) to recover long overdue balances. Generally, trade receivables will pay within 60 days. The Group's debt recovery process is as follows:

- (a) Above 30 days past due after credit term, the Group will start to initiate a structured debt recovery process which is monitored by the sales management team; and
- (b) Above 90 days past due, the Group will commence a legal proceeding against the customer.

The Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of insignificant balances outstanding.

To measure the expected credit losses, trade receivables have been grouped based on credit risk and days past due.

Where a trade receivable has a low credit risk, it is excluded from the allowance matrix and its ECL is assessed individually by considering historical payment trends and financial strength of the receivable.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2018.

Group	Gross RM'000	Loss allowance RM'000	Net RM'000
2018			
Not past due	179,947	(1,323)	178,624
Past due 1 – 30 days	6,572	-	6,572
Past due 31 – 90 days	6,161	(132)	6,029
	192,680	(1,455)	191,225
Credit impaired			
More than 90 days past due	29,636	(2,503)	27,133
Individually impaired	31,641	(31,641)	-
Trade receivables	253,957	(35,599)	218,358
Collateralised trade receivables			
- Where no loss allowance recognised	39,957	-	39,957
- Where loss allowance recognised	15,280	(12,135)	3,145
	55,237	(12,135)	43,102

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)**24.4 Credit risk (continued)****Receivables (continued)**

Recognition and measurement of impairment loss (continued)

Trade receivables which are credit impaired amounting to RM15,046,000 are partially collateralised in the form of financial guarantee by banks. Impairment loss has been provided to the extent of the collateral value of the financial guarantee of RM1,909,000.

There are trade receivables where the Group has not recognised any loss allowance as the trade receivables are supported by collateral such as bank guarantees and traded shares in managing exposure to credit risk.

The movements in the allowance for impairment in respect of trade receivables during the year are shown below:

Group	2018		
	Trade receivables		Total RM'000
	Lifetime ECL RM'000	Credit impaired RM'000	
Balance at 1 January as per MFRS 139			12,194
Adjustments on initial application of MFRS 9			9,152
Balance at 1 January as per MFRS 9	9,152	12,194	21,346
Impairment loss reversed	(5,193)	(1,085)	(6,278)
Impairment loss recognised	-	20,531	20,531
Balance at 31 December	3,959	31,640	35,599

Comparative information under MFRS 139, Financial Instruments: Recognition and Measurement

The aging of trade receivables as at 31 December 2017 was as follows:

Group	Gross RM'000	Individual	Net RM'000
		impairment RM'000	
2017			
Not past due	205,195	-	205,195
Past due 1 – 30 days	35,187	-	35,187
Past due 31 – 120 days	15,847	(4,087)	11,760
Past due more than 120 days	8,107	(8,107)	-
	264,336	(12,194)	252,142

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.4 Credit risk (continued)

Receivables (continued)

The movements in the allowance for impairment losses of trade receivables during the year were as follows:

Group	2017 RM'000
Balance at 1 January under MFRS 139	16,211
Impairment loss recognised	1,564
Impairment loss reversed	(94)
Impairment loss written off	(5,487)
At 31 December	12,194

Expected credit loss of other receivables

Expected credit loss of other receivable is determined individually after considering the financial strength of the other receivable. Based on management's assessment, the probability of the default of these receivables is low and hence, no loss allowance has been made.

Cash and cash equivalents

The cash and cash equivalents are held with banks and financial institutions. As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

These banks and financial institutions have low credit risks. In addition, some of the bank balances are insured by government agencies. Consequently, the Group and the Company are of the view that the loss allowance is not material and hence, it is not provided for.

Amounts due from subsidiaries and related parties

Risk management objectives, policies and processes for managing the risk

The Company provides advances to subsidiaries. The Company monitors the results of the subsidiaries regularly.

24. Financial instruments (continued)

24.4 Credit risk (continued)

Amounts due from subsidiaries and related parties (continued)

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

Loans and advances are provided to subsidiaries which are wholly owned by the Company and related companies.

Recognition and measurement of impairment losses

Generally, the Company considers loans and advances to subsidiaries have low credit risk. The Company assumes that there is a significant increase in credit risk when a subsidiary's financial position deteriorates significantly. As the Company is able to determine the timing of payments of the subsidiaries' loans and advances when they are payable, the Company considers the loans and advances to be in default when the subsidiaries are not able to pay when demanded. The Company considers a subsidiary's advance to be credit impaired when:

- The subsidiary is unlikely to repay its loan or advance to the Company in full;
- The subsidiary's loan or advance is overdue for more than 365 days; or
- The subsidiary is continuously loss making and is having a deficit shareholders' fund.

The Company determines the probability of default for these loans and advances individually using internal information available.

As at the year end, there were no indications of impairment loss in respect of amounts due from subsidiaries.

24.5 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk arises principally from its various payables, loans and borrowings and lease liabilities.

The Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)
24.5 Liquidity risk (continued)
Maturity analysis

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

Group	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000	1 – 2 years RM'000	2 – 5 years RM'000	More than 5 years RM'000
2018							
Non-derivative financial liabilities							
Bank overdraft – unsecured	64,454	3.34	64,454	64,454	-	-	-
Loan from a related company – unsecured	115,850	1.80 – 3.49	115,850	115,850	-	-	-
Advances from related companies	63,198	3.13 – 3.38	63,198	63,198	-	-	-
Trade and other payables, excluding derivatives	1,458,474	-	1,458,474	1,458,474	-	-	-
Lease liabilities	206,976	3.86 – 4.72	243,064	31,430	63,019	107,214	41,401
	1,908,952		1,945,040	1,733,406	63,019	107,214	41,401
Derivative financial liabilities/ (assets)							
Forward exchange contracts (gross settled)							
- Outflow	-	-	1,364,744	1,364,744	-	-	-
- Inflow	(2,886)	-	(1,367,630)	(1,367,630)	-	-	-
Commodity futures	532	-	532	532	-	-	-
	1,906,598		1,942,686	1,731,052	63,019	107,214	41,401

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)**24.5 Liquidity risk (continued)***Maturity analysis (continued)*

Group	Carrying amount RM'000 Restated	Contractual interest rate %	Contractual cash flows RM'000 Restated	Under 1 year RM'000 Restated	1 – 2 years RM'000 Restated	2 – 5 years RM'000 Restated
2017						
Non-derivative financial liabilities						
Bank overdraft – unsecured	29,925	3.38	29,925	29,925	-	-
Loan from a related company – unsecured	359,970	1.67 – 3.81	372,142	285,569	86,573	-
Advances from related companies	44,864	3.07 – 3.23	44,864	44,864	-	-
Trade and other payables, excluding derivatives	1,210,168	-	1,210,168	1,210,168	-	-
Lease liabilities	63,871	3.86 – 4.72	67,878	27,895	11,437	28,546
	1,708,798		1,724,977	1,598,421	98,010	28,546
Derivative financial liabilities/ (assets)						
Forward exchange contracts (gross settled)						
- Outflow	26,551	-	1,080,359	1,080,359	-	-
- Inflow	-	-	(1,053,808)	(1,053,808)	-	-
Commodity futures	3,682	-	3,682	3,682	-	-
	1,739,031		1,755,210	1,628,654	98,010	28,546

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices that will affect the Group's financial position or cash flows.

24.6.1 Currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Group entities. The currencies giving rise to this risk are primarily U.S. Dollar ("USD"), Great Britain Pound ("GBP") and Euro ("EUR").

Risk management objectives, policies and processes for managing the risk

The Group hedges a portion of its foreign currency denominated trade receivables and trade payables. Following the guidelines set out by the holding company, all foreign exchange contracts are for the purpose of hedging to protect the Group from foreign currency fluctuations and the Group is not allowed to trade other than for the purpose of hedging.

The primary purpose of the Group's foreign currency hedging activities is to protect against the volatility associated with foreign currency sales and purchases of manufactured inventories, purchases of materials and other assets and liabilities created in the normal course of business. The Group primarily utilises forward foreign exchange contracts with maturities of less than twelve months to hedge firm commitments. Under this programme, increases or decreases in the Group's firm commitments are partially offset by gains and losses on the hedging instruments.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)**24.6 Market risk (continued)****24.6.1 Currency risk (continued)**

Exposure to foreign currency risk

The Group's exposure to foreign currency (a currency which is other than the functional currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period was:

Group	← 2018 →			← 2017 →		
	Denominated in			Denominated in		
	USD RM'000	GBP RM'000	EUR RM'000	USD RM'000	GBP RM'000	EUR RM'000
Trade receivables	3,320	-	-	13,338	-	-
Trade payables	(93,027)	(10,233)	(18,647)	(79,570)	(20,898)	(21,202)
Intra-group receivables	137,354	-	4	109,157	-	-
Intra-group payables	(87,757)	(9,565)	(352)	(57,870)	(6,494)	(1,253)
Loan from a related company – unsecured	(115,850)	-	-	(275,706)	-	-
Commodity futures	67	(599)	-	1,718	(5,400)	-
Exposure in the statement of financial position	(155,893)	(20,397)	(18,995)	(288,933)	(32,792)	(22,455)
Net contracted foreign exchange contracts	47,011	(42,665)	(39,422)	70,643	(14,633)	(16,260)
Net exposure	(108,882)	(63,062)	(58,417)	(218,290)	(47,425)	(38,715)

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.6 Market risk (continued)

24.6.1 Currency risk (continued)

Currency risk sensitivity analysis

A 10% (2017: 10%) strengthening of RM against the following currencies at the end of the reporting period would have increased/(decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted transactions.

	Group	
	2018	2017
	RM'000	RM'000
USD	10,888	21,829
GBP	6,306	4,743
EUR	5,842	3,872

A 10% (2017: 10%) weakening of RM against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

24.6.2 Interest rate risk

The Group's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

The Group uses the expertise of Nestlé Treasury Centre ("NTC"), Asia Pacific based in Singapore for cash management and financing needs.

The Group's objective is to manage its interest rate exposure through the use of interest rate forwards, futures and swaps.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)**24.6 Market risk (continued)****24.6.2 Interest rate risk (continued)***Exposure to interest rate risk*

The interest rate profile of the Group's and of the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period are as follow:

	Group		Company	
	2018 RM'000	2017 RM'000 Restated	2018 RM'000	2017 RM'000
Fixed rate instrument				
Financial liabilities	(206,976)	(63,871)	-	-
Floating rate instruments				
Financial assets	79,167	58,660	75,933	76,671
Financial liabilities	(243,502)	(434,759)	-	-
	(164,335)	(376,099)	75,933	76,671

*Interest rate risk sensitivity analysis**Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

A change of 100 basis points ("bp") in interest rates at the end of the reporting period would have increased/ (decreased) profit or loss before tax of the Group and the Company by RM1,644,000 (2017: RM3,761,000) and RM759,000 (2017: RM767,000) respectively on the floating rate financial instruments. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)

24.6 Market risk (continued)

24.6.3 Commodity price risk

Commodity price risk arises from transactions in relation to commodity markets for the supplies of milk skimmed powder ("MSK"), coffee, cocoa, palm oil, sugar and energy for the manufacture of the Group's products.

Risk management objectives, policies and processes for managing the risk

The Group's objective is to minimise the impact of commodity price fluctuations. The commodity price risk exposure of future purchases are managed using a combination of derivatives (mainly futures and options) and executory contracts.

Based on the global procurement hub arrangement, Nestrade branch was set up in Malaysia to support the procurement activities of Zone Asia, Oceania and Africa ("AOA"). Nestrade, on behalf of the Group, transacts coffee, cocoa and sugar commodity contracts in order to obtain better leverage. Following the guidelines set out by the holding company, all commodity contracts are for hedging purposes to protect the Group from price fluctuations.

24.7 Hedging activities

24.7.1 Currency risk – Transactions in foreign currency

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of the Group. The functional currencies of Group companies are primarily the Malaysian Ringgit ("MYR"). The currencies in which these transactions are primarily denominated are Great Britain Pound ("GBP"), U.S. Dollars ("USD") and Euro ("EUR").

The Group's risk management policy is to hedge at least 70% of its estimated foreign currency exposure in respect of forecast sales and purchases over the following 12 months at any point in time. The Group purchases forward foreign exchange contracts to hedge foreign transactions. The Group designates the spot element of forward foreign exchange contracts to hedge its currency risk and applies a hedge ratio of 1:1. Most of these contracts have a maturity of less than one year from the reporting date. The Group determines that critical terms of the forward exchange contracts are aligned with the hedged item.

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)**24.7 Hedging activities (continued)****24.7.1 Currency risk – Transactions in foreign currency (continued)**

In these hedge relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and the Group's own credit risk on the fair value of the forward foreign exchange contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates; and
- changes in the timing of the hedged transactions.

24.7.2 Fair value hedge

The Group uses fair value hedges to mitigate foreign currency risks of the loan denominated in USD from Nestlé Treasury Centre – Middle East & Africa. The forward exchange contracts has the nominal value of RM113,906,000 (2017: RM275,706,000). The forward exchange contracts is entered into within a year and settled according to the individual contracts settlement date.

The following table indicates the periods in which the cash flows associated with the forward exchange contracts is expected to occur and affect profit or loss:

Group	Carrying amount RM'000	Expected cash flows RM'000	Under 1 year RM'000
2018			
Forward exchange contracts	6,203	6,203	6,203
2017			
Forward exchange contracts	(17,490)	(17,490)	(17,490)

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)
24.7 Hedging activities (continued)
24.7.3 Cash flow hedge

The Group uses cash flow hedges to mitigate foreign currency risks of highly probable forecast transactions, such as anticipated future export sales, purchases of equipment and raw materials. The forward exchange contracts and commodity futures have the nominal value of RM925,107,000 (2017: RM781,985,000) and RM8,817,000 (2017: RM104,460,000) respectively. The forward exchange contracts and commodity futures are entered into within a year and settled according to the individual contracts settlement date.

The following table indicates the periods in which the cash flows associated with the forward exchange contracts and commodity futures are expected to occur and affect profit or loss:

Group	Carrying amount RM'000	Expected cash flows RM'000	Under 1 year RM'000
2018			
Forward exchange contracts	(3,317)	(3,317)	(3,317)
Commodity futures	(532)	(532)	(532)
2017			
Forward exchange contracts	(9,061)	(9,061)	(9,061)
Commodity futures	(3,682)	(3,682)	(3,682)

During the financial year, a gain of RM13,225,000 (2017: loss of RM25,099,000) net of tax was recognised in the other comprehensive income and a loss of RM1,555,000 (2017: gain of RM5,031,000) net of tax was reclassified from equity to profit or loss. Ineffectiveness gain amounting to RM309,000 (2017: RM112,000) was recognised in profit or loss during the financial year in respect of the hedge.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)**24.8 Fair value information**

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

The table below analyses financial instruments carried at fair value.

Group	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial assets										
Commodity futures	179	-	-	179	-	-	-	-	179	179
Forward exchange contracts	-	7,779	-	7,779	-	-	-	-	7,779	7,779
Loans to employees	-	-	-	-	-	-	33,557	33,557	33,557	33,557
	179	7,779	-	7,958	-	-	33,557	33,557	41,515	41,515
Financial liabilities										
Commodity futures	(711)	-	-	(711)	-	-	-	-	(711)	(711)
Forward exchange contracts	-	(4,893)	-	(4,893)	-	-	-	-	(4,893)	(4,893)
Lease liabilities	-	-	-	-	-	-	(206,976)	(206,976)	(206,976)	(206,976)
Loan from a related company	-	-	-	-	-	-	(115,850)	(115,850)	(115,850)	(115,850)
	(711)	(4,893)	-	(5,604)	-	-	(322,826)	(322,826)	(328,430)	(328,430)

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)
24.8 Fair value information (continued)

Group	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	RM'000	RM'000
2017										
Financial assets										
Commodity futures	1,847	-	-	1,847	-	-	-	-	1,847	1,847
Forward exchange contracts	-	9,507	-	9,507	-	-	-	-	9,507	9,507
Loans to employees	-	-	-	-	-	-	37,437	37,437	37,437	37,437
	1,847	9,507	-	11,354	-	-	37,437	37,437	48,791	48,791
Financial liabilities										
Commodity futures	(5,529)	-	-	(5,529)	-	-	-	-	(5,529)	(5,529)
Forward exchange contracts	-	(36,058)	-	(36,058)	-	-	-	-	(36,058)	(36,058)
Lease liabilities	-	-	-	-	-	-	(63,871)	(63,871)	(63,871)	(63,871)
Loan from a related company	-	-	-	-	-	-	(359,970)	(359,970)	(359,970)	(359,970)
	(5,529)	(36,058)	-	(41,587)	-	-	(423,841)	(423,841)	(465,428)	(465,428)

24. Financial instruments (continued)

24.8 Fair value information (continued)

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 financial year (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.

24.9 Master netting or similar agreements

The Group enters into derivative transactions under International Swaps and Derivatives Association (“ISDA”) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs, all outstanding agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statements of financial position. This is because the Group currently does not have any legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

NOTES TO THE FINANCIAL STATEMENTS

24. Financial instruments (continued)
24.9 Master netting or similar agreements (continued)

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

Group	Note	Carrying amounts of financial instruments in the statements of financial position RM'000	Related financial instruments that are not offset RM'000	Net amount RM'000
2018				
Derivative financial assets				
Forward exchange contracts designated as hedging instruments	9	7,779	(3,705)	4,074
Derivative financial liabilities				
Forward exchange contracts designated as hedging instruments	17	(4,893)	3,705	(1,188)
2017				
Derivative financial assets				
Forward exchange contracts designated as hedging instruments	9	9,507	(9,507)	-
Derivative financial liabilities				
Forward exchange contracts designated as hedging instruments	17	(36,058)	9,507	(26,551)

25. Capital management

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business.

There was no change to the Group's approach to capital management during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

26. Capital and other commitments

	Group	
	2018	2017
	RM'000	RM'000
Capital expenditure commitments		
Plant and equipment		
Authorised but not contracted for	236,017	106,636
Contracted but not provided for within one year	24,075	19,639
	260,092	126,275

27. Related parties**Identity of related parties**

For the purposes of these financial statements, parties are considered to be related to the Group if the Group or the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly and entity that provides key management personnel services to the Group. The key management personnel include all the Directors of the Group, and certain members of senior management of the Group.

The Group has related party relationship with its holding company, significant investors, subsidiaries, Directors and other key management personnel.

NOTES TO THE FINANCIAL STATEMENTS

27. Related parties (continued)
Significant related party transactions

Related party transactions have been entered into in the normal course of business under normal trade terms. The significant related party transactions of the Group and the Company are shown below. The balances related to the below transactions are shown in Note 9, 14 and 17.

Group	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Related companies					
Sales of goods and services	a	(960,489)	(890,420)	-	-
Purchases of goods and services	a	809,513	664,286	-	-
Royalties		271,444	258,492	-	-
IT shared services		36,452	43,157	-	-
Finance costs	b	9,937	6,411	-	-
Finance income	c	-	-	(2,568)	(2,428)
Key management personnel					
Directors					
- Fees		1,403	1,204	1,403	1,204
- Remuneration		8,133	6,231	-	-
- Other short-term employee benefits (including estimated monetary value of benefits-in-kind)		1,193	845	50	50
Total short-term employee benefits		10,729	8,280	1,453	1,254
Post-employment benefits		274	439	-	-
Share-based payments		652	1,721	-	-
		11,655	10,440	1,453	1,254
Other key management personnel					
- Remuneration		6,891	7,070	-	-
- Other short-term employee benefits (including estimated monetary value of benefits-in-kind)		821	806	-	-
Total short-term employee benefits		7,712	7,876	-	-
Post-employment benefits		446	455	-	-
Share-based payments		1,642	1,535	-	-
		9,800	9,866	-	-
		21,455	20,306	1,453	1,254

NOTES TO THE FINANCIAL STATEMENTS

27. Related parties (continued)**Significant related party transactions (continued)**

Note a Sales to and purchases from related companies are based on normal trade terms. Balances outstanding are unsecured.

Note b Loans from Nestlé Treasury Centre – Middle East & Africa are unsecured, subject to interest at 1.80% to 3.49% (2017: 1.67% to 3.81%) per annum and are repayable on demand.

Note c Loans to subsidiaries are unsecured, subject to interest at 3.13% to 3.38% (2017: 3.07% to 3.13%) per annum and are repayable on demand.

Other key management personnel comprise persons other than the Directors of Group entities, having authority and responsibility for planning, directing and controlling the activities of the Group entities either directly or indirectly.

In addition to their salaries, the Group also provides non-cash benefits to Directors and executive officers, and contributes to a post-employment benefit on their behalf.

28. Significant event**28.1 Sale of Chilled Dairy business and Petaling Jaya factory**

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”), wholly-owned subsidiaries of the Company, have entered into a Business Transfer Agreement with Lactalis Trading Malaysia Sdn. Bhd. and Petaling Jaya Dairy Sdn. Bhd. (formerly known as 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 assets have been classified as assets held for sale as at year end (see Note 12).

The Chilled Dairy business, however, has been taken over by Lactalis Trading Malaysia Sdn. Bhd. effective from 1 January 2019. The cash consideration of RM14.2 million has been received on 31 December 2018 and a net gain of RM9.4 million has been recognised in financial year ended 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

28. Significant event (continued)

28.1 Sale of Chilled Dairy business and Petaling Jaya factory (continued)

Effects of the divestment of Chilled Dairy business on financial position of the Group are as follows:

	RM'000
Cash consideration	14,200
Less:	
Property, plant and equipment	(131)
Inventories	(932)
Others	(3,720)
Net assets	(4,783)
Net gain on divestment	9,417

29. Significant changes in accounting policies

During the year, the Group adopted MFRS 15, *Revenue from Contracts with Customers*, MFRS 9, *Financial Instruments* and early adopted MFRS 16, *Leases* on their financial statements. The Group generally applied the requirements of MFRS 15, MFRS 9 and MFRS 16 accounting standards retrospectively with practical expedients and transitional exemptions as allowed by the standards. Nevertheless, as permitted by MFRS 9, the Group has elected not to restate the comparatives, except for MFRS 16.

NOTES TO THE FINANCIAL STATEMENTS

29. Significant changes in accounting policies (continued)**29.1 Impacts on financial statements**

The following tables summarise the impacts arising from the adoption of MFRS 9 and MFRS 16 on the Group's financial statements.

a. Statement of financial position

Group	1 Jan 2017			31 December 2017			1 January 2018	
	As		As	As		As	MFRS 9	As
	previously reported	MFRS 16 adjustments	restated	previously reported	MFRS 16 adjustments	restated	adjustments	restated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	1,353,050	(79,847)	1,273,203	1,373,653	(78,189)	1,295,464	-	1,295,464
Right-of-use assets	-	161,815	161,815	-	136,747	136,747	-	136,747
Deferred tax assets	20,155	2,611	22,766	19,244	1,279	20,523	2,197	22,720
Others	1,121,405	-	1,121,405	1,164,089	-	1,164,089	(9,152)	1,154,937
Total assets	2,494,610	84,579	2,579,189	2,556,986	59,837	2,616,823	(6,955)	2,609,868
Deferred tax liabilities	91,260	-	91,260	120,987	-	120,987	-	120,987
Lease liabilities	13,090	92,849	105,939	-	63,871	63,871	-	63,871
Others	1,743,039	(7,481)	1,735,558	1,796,071	-	1,796,071	-	1,796,071
Total liabilities	1,847,389	85,368	1,932,757	1,917,058	63,871	1,980,929	-	1,980,929
Retained earnings	368,825	(789)	368,036	381,600	(4,034)	377,566	(6,955)	370,611
Others	278,396	-	278,396	258,328	-	258,328	-	258,328
Total equity	647,221	(789)	646,432	639,928	(4,034)	635,894	(6,955)	628,939
Total equity and liabilities	2,494,610	84,579	2,579,189	2,556,986	59,837	2,616,823	(6,955)	2,609,868

NOTES TO THE FINANCIAL STATEMENTS

29. Significant changes in accounting policies (continued)

29.1 Impacts on financial statements (continued)

b. Statement of profit or loss and other comprehensive income

Group	As previously reported RM'000	MFRS 16 adjustments RM'000	As restated RM'000
For the year ended 31 December 2017			
Revenue	5,260,490	-	5,260,490
Cost of sales	(3,308,342)	(1,044)	(3,309,386)
Gross profit	1,952,148	(1,044)	1,951,104
Operating expenses	(1,104,246)	633	(1,103,613)
Results from operating activities	847,902	(411)	847,491
Finance income	1,443	-	1,443
Finance costs	(36,001)	(1,502)	(37,503)
Net finance costs	(34,558)	(1,502)	(36,060)
Share of profit of an equity-accounted associate, net of tax	785	-	785
Profit before tax	814,129	(1,913)	812,216
Income tax expense	(168,334)	(1,332)	(169,666)
Profit for the year	645,795	(3,245)	642,550

NOTES TO THE FINANCIAL STATEMENTS

29. Significant changes in accounting policies (continued)**29.1 Impacts on financial statements (continued)****c. Statement of cash flows**

Group	As previously reported RM'000	MFRS 16 adjustments RM'000	As restated RM'000
For the year ended 31 December 2017			
Profit before tax	814,129	(1,913)	812,216
Adjustments for:			
Depreciation of property, plant and equipment	130,887	(1,659)	129,228
Amortisation of right-of-use assets	-	26,664	26,664
Net finance costs	34,558	1,502	36,060
Movement in working capital	(168,054)	7,482	(160,572)
Others	(108,005)	-	(108,005)
Net cash from operating activities	703,515	32,076	735,591
Net cash used in investing activities	(160,709)	-	(160,709)
Cash flows from financing activities			
Finance cost paid	(36,001)	(1,502)	(37,503)
Payment of lease liabilities	(13,090)	(30,574)	(43,664)
Others	(355,268)	-	(355,268)
Net cash used in financing activities	(404,359)	(32,076)	(436,435)
Net increase in cash and cash equivalents	138,447	-	138,447
Cash and cash equivalents at 1 January	(155,757)	-	(155,757)
Cash and cash equivalents at 31 December	(17,310)	-	(17,310)

NOTES TO THE FINANCIAL STATEMENTS

29. Significant changes in accounting policies (continued)

29.2 Accounting for financial instruments

a. Transition

In the adoption of MFRS 9, the following transitional exemptions as permitted by the standard have been adopted:

- i) The Group has not restated comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of MFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of MFRS 9, but rather those of MFRS 139, *Financial Instruments: Recognition and Measurement*.
- ii) The determination of the business model within which a financial asset is held has been made based on the facts and circumstances that existed at the date of initial application.
- iii) Loss allowance for receivables (other than trade receivables) is recognised at an amount equal to lifetime expected credit losses until the receivable is derecognised.

b. Classification of financial assets on the date of initial application of MFRS 9

Group	Notes	31 December 2017 RM'000	1 January 2018	
			Remeasurement RM'000	Reclassification to new MFRS 9 category Amortised cost ("AC") RM'000
Category under MFRS 139				
Financial assets				
Loans and receivables				
Trade and other receivables	9	586,297	(9,152)	577,145
Cash and cash equivalents	11	12,615	-	12,615
		598,912	(9,152)	589,760

29. Significant changes in accounting policies (continued)

29.2 Accounting for financial instruments (continued)

b. Classification of financial assets on the date of initial application of MFRS 9 (continued)

(i) Reclassification from loans and receivables to amortised cost

Trade and other receivables that were classified as loans and receivables under MFRS 139 are now reclassified at amortised cost. An increase of RM6,955,000 (net of tax) in allowance for impairment was recognised in opening retained earnings of the Group at 1 January 2018 on transition to MFRS 9.

29.3 Accounting for leases

The Group has early adopted MFRS 16, *Leases* for the financial year ended 31 December 2018, which is effective for annual periods beginning on or after 1 January 2019.

In the adoption of MFRS 16, the Group has applied MFRS 16 using the retrospective approach and the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under MFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet, except for those eligible for the recognition exemptions to short-term leases as disclosed in Note 2(e).

As a result, leases which were classified as operating leases under MFRS 117 and not eligible for the recognition exemptions, are now recognised as right-of-use assets and lease liabilities under MFRS 16.

The Group tested right-of-use assets for impairment and no impairment losses have been recognised in current year or prior periods.

STATEMENT BY DIRECTORS

pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 55 to 141 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2018 and of their financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

.....
Juan Jose Aranols Campillo

Chief Executive Officer

.....
Craig Grant Connolly

Chief Financial Officer

Petaling Jaya, Malaysia

26 February 2019

STATUTORY DECLARATION

pursuant to Section 251(1)(b) of the Companies Act 2016

I, **Craig Grant Connolly**, the Director primarily responsible for the financial management of Nestlé (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 55 to 141 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named, Craig Grant Connolly, Passport No. PA9058328 in Petaling Jaya on 26 February 2019.

.....
Craig Grant Connolly
Chief Financial Officer

Before me:

Guna Papoo
Commissioner of Oaths (No. B338)

Petaling Jaya, Malaysia

26 February 2019

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF NESTLÉ (MALAYSIA) BERHAD

(Company No. 110925-W)

(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Nestlé (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2018 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 55 to 141.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

(Refer to Note 2(m) - Significant accounting policy: Revenue and Note 23 - Operating Segments)

Revenue from the sale of goods is recognised when there is a transfer of control over a product or service to the customers; and is measured based on the consideration specified in a contract, net of pricing allowances, other trade discounts, and price promotions to customers (collectively "trade spend").

INDEPENDENT AUDITORS' REPORT

The key audit matter

Revenue recognition was a key audit matter due to:

- Risk that revenue might be overstated due to intentional misstatement resulting from the pressure of management to achieve the budgeted results. The Group sets revenue growth as one of their key performance measures which could create an incentive for revenue to be recognised before the control has been transferred.
- Risk of inappropriate classification between trade spend (a component of revenue) and marketing expenses (a component of operating profit) provided an opportunity for management to meet revenue targets.

How the matter was addressed in our audit

We performed the following audit procedures, among others, around revenue recognition:

- Due to the high reliance of revenue recognition on the Group's IT system, we evaluated the effectiveness of the general IT control environment and tested the operating effectiveness of relevant IT application controls. We tested the completeness and accuracy of the underlying customer master data, by assessing mandatory fields and critical segregation of duties;
- We developed an expectation of the current year revenue taking into account of cash receipts, movements in receivable balances and other transaction costs. We then compared this expectation with actual results;
- We assessed sales transactions taking place before and after the reporting date as well as credit notes issued subsequent to the reporting date to ascertain whether the revenue was recognised in the correct period;
- We tested manual journal entries relating to revenue by checking to appropriate authorisation level and appropriate supporting documents;
- We tested the operating effectiveness of controls over the calculation and monitoring of trade spend;
- We performed predictive analysis on Total Trade Spend ("TTS") and Product Fixed Marketing Expenses ("PFME") ratio over revenue using historical trend as benchmark and compared the reported results with our expectation; and
- We assessed if total trade spend committed were appropriately accrued for in the current period by checking to claims from customers subsequent to reporting date.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Directors' report and Statement on Risk Management and Internal Control (but does not include the financial statements of the Group and of the Company and our auditors' report thereon), which we obtained prior to the date of this auditors' report, and the remaining parts of the annual report, which are expected to be made available to us after that date.

INDEPENDENT AUDITORS' REPORT

Information Other than the Financial Statements and Auditors' Report Thereon (continued)

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the ability of the Group and of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITORS' REPORT

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group and of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group or of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITORS' REPORT

Other Matter

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Chong Dee Shiang
Approval Number: 02782/09/2020 J
Chartered Accountant

Petaling Jaya, Malaysia

26 February 2019

SHAREHOLDINGS STATISTICS

at 28 February 2019

Authorised capital	: RM300,000,000
Issued and paid-up share capital	: RM267,500,000*
Number of shares	: 234,500,000
Class of shares	: Ordinary shares of RM1.00 each
No. of shareholders	: 6,582
Voting rights	: One vote per ordinary share

* In accordance with Section 618(2) of the Companies Act 2016, the share premium amounting to RM33,000,000 has become part of the Company's share capital.

SUBSTANTIAL SHAREHOLDERS

Name	Number of shares held	%
Nestlé S.A.	170,276,563	72.613
Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	17,333,700	7.392

30 LARGEST SHAREHOLDERS

	Name	Number of shares held	%
1	NESTLÉ S.A.	170,276,563	72.613
2	CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	1,479,200	0.631
3	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	944,492	0.403
4	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 14)	865,600	0.369
5	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	834,457	0.356
6	CARTABAN NOMINEES (ASING) SDN BHD GIC PRIVATE LIMITED FOR GOVERNMENT OF SINGAPORE (C)	567,600	0.242
7	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 9)	397,000	0.169
8	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR MSCI EQUITY INDEX FUND B - MALAYSIA	331,000	0.141

SHAREHOLDINGS STATISTICS

	Name	Number of shares held	%
9	DB (MALAYSIA) NOMINEE (ASING) SDN BHD BNYM SA/NV FOR PEOPLE'S BANK OF CHINA (SICL ASIA EM)	316,700	0.135
10	HSBC NOMINEES (ASING) SDN BHD MORGAN STANLEY & CO. INTERNATIONAL PLC (FIRM A/C)	285,994	0.122
11	CITIGROUP NOMINEES (ASING) SDN BHD UBS AG	267,088	0.114
12	CITIGROUP NOMINEES (ASING) SDN BHD LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED	261,085	0.111
13	HSBC NOMINEES (ASING) SDN BHD TNTC FOR FUTURE FUND BOARD OF GUARDIANS	261,000	0.111
14	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR BLACKROCK INSTITUTIONAL TRUST COMPANY, N.A. INVESTMENT FUNDS FOR EMPLOYEE BENEFIT TRUSTS	254,700	0.109
15	HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR STICHTING DEPOSITARY APG EMERGING MARKETS EQUITY POOL	228,400	0.097
16	CARTABAN NOMINEES (ASING) SDN BHD SSBT FUND ZVQJ FOR STATE STREET ALL-WORLD TOTAL MARKET CORE FACTORS NON-LENDING COMMON TRUST FUND	227,200	0.097
17	CARTABAN NOMINEES (ASING) SDN BHD SSBT FUND SWV4 FOR CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM	222,100	0.095
18	CARTABAN NOMINEES (ASING) SDN BHD STATE STREET LONDON FUND OD75 FOR ISHARES PUBLIC LIMITED COMPANY	211,900	0.090
19	HSBC NOMINEES (ASING) SDN BHD HSBC BK PLC FOR ABU DHABI INVESTMENT AUTHORITY (TRANG)	178,000	0.076
20	CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 1)	168,400	0.072
21	HSBC NOMINEES (ASING) SDN BHD NTGS LDN FOR ANDRA AP-FONDEN SECOND SWEDISH NATIONAL PENSIONFUND - AP2	167,200	0.071
22	CARTABAN NOMINEES (ASING) SDN BHD RBC INVESTOR SERVICES BANK S.A. FOR VONTOBEL FUND - FAR EASTEQUITY	164,900	0.070
23	CARTABAN NOMINEES (ASING) SDN BHD SSBT FUND SWVU FOR CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM	162,700	0.069

SHAREHOLDINGS STATISTICS

Name	Number of shares held	%
24 CARTABAN NOMINEES (ASING) SDN BHD SSBT FUND ZVMY FOR STATE STREET MSCI MALAYSIA INDEX NON-LENDING COMMON TRUST FUND	161,100	0.069
25 HSBC NOMINEES (ASING) SDN BHD J.P. MORGAN SECURITIES PLC	160,300	0.068
26 DB (MALAYSIA) NOMINEE (ASING) SDN BHD SSBT FUND SGUG FOR PEOPLE'S BANK OF CHINA	158,100	0.067
27 HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR GOVERNMENT PENSION INVESTMENT FUND (MTBJ-400045794)	148,800	0.063
28 HSBC NOMINEES (ASING) SDN BHD TNTC FOR GENERAL ORGANIZATION FOR SOCIAL INSURANCE	148,200	0.063
29 HSBC NOMINEES (ASING) SDN BHD HSBC BK PLC FOR ABU DHABI INVESTMENT AUTHORITY (INSEA)	141,800	0.060
30 DB (MALAYSIA) NOMINEE (ASING) SDN BHD SSBT FUND DU19 FOR CAISSE DE DEPOT ET PLACEMENT DU QUEBEC	141,306	0.060

Size of Holdings	No. of Shareholders/ Depositors	% of Shareholders/ Depositors	No. of Shares Held	% of Issued Capital
1 - t99	815	12.382	5,658	0.002
100 - 1,000	4,000	60.772	1,871,473	0.798
1,001 - 10,000	1,263	19.189	4,445,752	1.896
10,001 - 100,000	421	6.396	12,910,531	5.506
100,001 - less than 5% of issued shares	81	1.231	27,656,323	11.794
5% and above of issued shares	2	0.030	187,610,263	80.004
Total	6,582	100.000	234,500,000	100.000

DIRECTORS' SHAREHOLDINGS

	Direct Interests (no. of shares)	% of Issued Capital	Deemed Interests (no. of shares)	% of Issued Capital
Nestlé S.A., the holding company				
Dato' Frits van Dijk	150,000	0.00490	-	-
Juan Jose Aranols Campillo	14,037	0.00046	-	-
Martin Peter Kruegel	3,256	0.00011	-	-

LIST OF PROPERTIES HELD

at 31 December 2018

							Net Book Value RM'000
Location	Tenure	Age*	Expiry Date	Size (m²)	Description		
1. No. 25 Jalan Tandang 46050 Petaling Jaya Selangor	Leasehold	58	Q.T. (R) 2619 25.9.2066 Q.T. (R) 5281 7.10.2069	50,342	Factory		14,616
2. Lot No. 3, 5, 75 & 76 Jalan Playar 15/1 40700 Shah Alam Selangor	Leasehold	9-48**	10.6.2070	113,396	Factory		40,667
3. Lot No. 6 Pesiaran Raja Muda 40700 Shah Alam Selangor	Leasehold warehouse	49	29.1.2070	36,835	Factory & warehouse		10,783
4. Lot Nos. 687 - 696, 3863 - 3866, 4671, 4673, 5435 & 5807 Mukim Chembong Daerah Rembau Negeri Sembilan	Leasehold	22-27	15.11.2048 27.06.2049 13.08.2055 20.11.2095	136,199	Factory		2,662
5. Lot Nos. 3857 - 3862 & 4672 Jalan Perusahaan 4, Kawasan Perindustrian Chembong, Chembong Rembau, Negeri Sembilan	Leasehold	22-27	27.6.2049 20.11.2095	33,870	Factory		1,262
6. Lot No. 844, Block 7 Muara Tebas Land District Sejingkat Industrial Estate Kuching, Sarawak	Leasehold	27	19.10.2053	25,460	Factory		293
7. Lot 915, Block 7 Muara Tebas Land District Demak Laut Industrial Park Kuching, Sarawak	Leasehold	24	12.10.2054	12,740	Factory		563
8. Lot 3846, Pekan Chembong Daerah Rembau Negeri Sembilan	Leasehold	5	26.06.2049	4,249	Vacant land		278

* Approximation of age of property in years.

** Amalgamation of Shah Alam Complex, Batu Tiga & Sri Muda land in 2015.

NESTLÉ (MALAYSIA) BERHAD

(110925-W)

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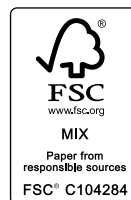
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