



Nestlé

Good food, Good life



CORPORATE
GOVERNANCE
& FINANCIAL
REPORT

2019





INSIDE THIS REPORT

ENHANCING QUALITY OF LIFE AND CONTRIBUTING TO A HEALTHIER FUTURE

As we pursue our aspirations, we are ever-mindful of our purpose. This is intrinsic to our commitments, inspiring us as individuals, sustaining us as a company, and allowing us to contribute to society in meaningful ways. This subsequently propels the long-term growth of the business.

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CORPORATE GOVERNANCE OVERVIEW STATEMENT

A VIEW FROM THE CHAIRMAN



Dear Shareholders,

Good corporate governance is central to our approach to enhance the creation of value in the short, medium and long term for the benefit of all stakeholders of Nestlé (Malaysia) Berhad (“Company”). The Board of Directors (“Board”) and the Management Team are committed to policies and practices that meet high levels of compliance and transparency in disclosure.

Nestlé has a rich and proud history of success and achievements created by thousands of committed people over many years. Nestlé (Malaysia) Berhad and its group of companies (“Group”) are managed with honesty and integrity.

Nestlé’s values and culture are centered on the unwavering goal to improve the lives of our consumers. These foundations have sustained our business despite adverse macroeconomic conditions.

CREATING VALUE WITH GOOD CORPORATE GOVERNANCE

By upholding the highest possible corporate governance standards, Nestlé gives all its stakeholders confidence that it is a well-governed and well-managed company.

The Board is able to focus on the business and make well-informed decisions that are in the Company’s best interests, by ensuring that our structured governance frameworks are firmly in place, and that all practical details of the different governance processes are incorporated.

Our good corporate governance standards create value for our business in various ways, specifically by supporting our:

- sustained financial performance;
- high quality and nutritious products for our consumers; and
- talent attraction and retention.

A CULTURE ROOTED IN ETHICS AND VALUES

Nestlé has a groupwide culture that aligns productivity and performance with ethical practices and social consciousness. The Group operates within a clear ethics framework, aligned to its values, and we take a zero-tolerance approach to corruption and collusion. The Nestlé Code of Business Conduct guides the way we go about discharging our responsibilities. Ongoing ethics training among employees and the signing of an Integrity Pledge by all Directors and employees provide constant reinforcement.

The Group’s legal compliance programme ensures compliance with the applicable range of laws and regulations and Nestlé’s policies and guidelines. Each division, comprising of the Business Units and Functions has a designated Compliance Champion which oversees and monitors compliance. In addition, internal audits are undertaken in all operations to assess their effectiveness. Where required, external compliance assessments are undertaken.

Regulatory developments are monitored on an ongoing basis and the Company proactively engages with regulators through various industry and stakeholders engagement. This supports industry advocacy effects, but also to ensure a common interpretation of requirements and therefore understanding the controls needed to comply.

 **More Information on Our Compliance Culture can be read on page 4 to 5 of this report**

OUR REPORT

We have structured our Report to reflect the themes of the Malaysian Code on Corporate Governance (“MCCG”). It provides an overview of the works undertaken by the Board and its Committees in fulfilling our governance responsibilities and describes how the principles and provisions of the MCCG have been applied by the Company during the year ended 31 December 2019.

The Board will continue to strengthen the Group’s governance processes to ensure that the business as a whole is aligned with best practices and that our approach to disclosure remains timely and transparent.

Y.A.M. Tan Sri Dato’ Seri Syed Anwar Jamalullail
Chairman

This Corporate Governance Overview Statement should be read with the Corporate Governance Report, which is available on the Company’s website at www.nestle.com.my

CREATING VALUE THROUGH BRAND TRUST

We recognise the importance of trust in the brand. It is important that the Board and all employees of the Group are guided by the Nestlé Corporate Business Principles (“NCBP”) to ensure all our practices are consistent with our values and principles. The NCBP also focuses on work place practices and ethics, employee relations and employee human rights. The ten principles of the NCBP can be summarised as follows:

WE DELIGHT CUSTOMERS

Nutrition, Health and Wellness

- Nestlé Principles on Nutrition, Health and Wellness

Quality Assurance and Product Safety

- Nestlé Quality Policy
- Nestlé Nutrition Quality Policy

Consumer Communication

- 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

WE CARE ABOUT PEOPLE

Human Rights in Our Business Activities

- 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

Leadership and Personal Responsibility

- Nestlé Management and Leadership Principles
- Nestlé Code of Business Conduct
- Nestlé Human Resources Policy

Safety and Health at Work

- Nestlé Policy on Safety and Health at Work

WE DEVELOP RESPONSIBLE PARTNERSHIPS

Supplier and Customer Relations

- Nestlé Responsible Sourcing Standard

Agriculture and Rural Development

- Nestlé Policy on Environmental Sustainability

WE PROMOTE SUSTAINABILITY

Climate Warning-Plastic Waste and Biodiversity

- Nestlé Policy on Environmental Sustainability

Water

- Nestlé Policy on Environmental Sustainability
- Nestlé Commitments on Water

CORPORATE GOVERNANCE OVERVIEW STATEMENT

NESTLÉ CODE OF BUSINESS CONDUCT

The Nestlé Code of Business Conduct (“NCBC”) details the conduct and responsibilities of the Board and all employees.

The NCBC is premised on three basic principles:

- (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 Board and Group’s employees should behave.

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 any entities within the Group.

COMPLIANCE FRAMEWORK STRUCTURE

The Compliance Steering Committee, chaired by the Chief Executive Officer (“CEO”) is responsible for setting the direction of the Group’s Compliance Framework and to support the successful execution of a Compliance Programme. The Compliance Programme covers among others, the implementation of internal policies and procedures for compliance with applicable laws, rules and regulations, the evaluation and discussion of current compliance topics, the Group’s internal controls, identification of gaps and risks within the Group and the continuous implementation of employee awareness and engagement activities.

Individual committees are then formed separately to support and implement the Compliance Programme and directions of the Compliance Steering Committee. For example, for compliance with the Personal Data Protection Act 2010, a Personal Data Committee comprising of business controllers of relevant business and function units was formed to ensure the Group’s data privacy compliance plans are effectively implemented.

The progress of the implementation of the Compliance Programme is then reported to the Compliance Steering Committee.

For the financial year ended 31 December 2019, the Compliance Steering Committee convened three meetings.

ENSURING CONTINUED THROUGH OUR COM

WHISTLEBLOWING

To support good corporate governance practices, manage risks and demonstrate accountability, the Group has in place a whistleblowing procedure which allows employees, suppliers or third parties to report any potential non-compliance incident within the Group.

Employees are encouraged to speak up and raise any suspicions of wrongdoing, malpractice or impropriety in the management of the Group’s business. Besides being able to raise issues directly to their line managers or the Market Compliance Officer, employees can lodge a report through the Group’s Non-Compliance Hotline, by telephone, webmail or email. Suppliers and third parties may also avail themselves to a similar whistleblowing hotline called Tell-Us, by telephone, webmail or email.

The identity of the whistleblower is safeguarded at all times and is protected from coercion, retaliation or reprisal for their cooperation. For this purpose, the Non-Compliance Hotline and Tell-Us are operated by an independent third party service provider. All reports will be properly investigated and treated with confidence by the Business Ethics & Fraud Committee.

In 2019, six non-compliance complaints were received under the whistleblowing system, all of which have been duly investigated and necessary actions have been taken.



Non-Compliance Hotline (Employees)

Dial: 1800-88-4307 (Access code : 41830)
Email: Noncompliance.mailbox@my.nestle.com
Web: <https://www.speakupfeedback.eu/web/nm34k/my>
(Access Code: 41830)

Tell Us (External)

Dial: 1800-88-4307 (Access Code: 91738)
Email: Noncompliance.mailbox@my.nestle.com
Web: www.speakupfeedback.eu/web/A2VY73
(Access Code: 91738)

NESTLÉ MALAYSIA ANTI-CORRUPTION, GIFTS & ENTERTAINMENT GUIDELINES

The Nestlé Malaysia Anti-Corruption, Gifts & Entertainment Guidelines (“Guidelines”) aims to maximise the impact of Nestlé global policies on bribery and corruption, in particular the Nestlé Corporate Business Principles and Nestlé Code of Business Conduct by localising it into the local environment, for it to be more practical and effective. This ensures that the highest level of business integrity is maintained by the employees, the Board and third parties in conducting their business with the Group.

The Group issues regular communications on its stand against corruption to its employees. The Nestlé Malaysia Anti-Corruption, Gifts & Entertainment Guidelines (For Customers & Suppliers) which embeds the Group’s position against corruption, is clearly communicated to the public in the Nestlé corporate website.

In view of the new Section 17A of the Malaysian Anti-Corruption Commission Act 2009 (“MACC Act”), which introduces corporate liability provision for bribery and corruption, the Group is taking steps to further strengthen its current processes and procedures to ensure adequate procedures are in place when this new provision takes effect.

NESTLÉ RESPONSIBLE SOURCING STANDARD

The Nestlé Responsible Sourcing Standard describes the requirements and ways of working that the Group applies 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. It begins with the Group to suppliers, through intermediaries and all the way back to the origins of the goods and services purchased.

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, and the United Nations Sustainable Development Goals ("SDGs").

VALUE CREATION PLIANCE CULTURE

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.

COMPETITION LAW AND ANTI-TRUST POLICY

The Group continuously implements its own competition law training programmes for its employees across various business units and functions.

As part of the Group's continuous efforts to instill a strong culture of compliance and values throughout the organisation, the Group has since circulated its own "Handbook on Competition/Anti-trust Law", educational and informative competition law compliance materials to its employees.

In 2019, the Group has also extended its co-operation and assistance to the Malaysia Competition Commission ("MyCC") in its nationwide market review conducted on the food sector under the Competition Act 2012.

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 Group Antitrust Law Policy.

BUSINESS ETHICS & FRAUD COMMITTEE ("BEFC")

A BEFC is responsible to review all complaints and/or allegations lodged via the Non-Compliance Hotline, Tell-Us 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, reviews the investigation 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 presentation to the Board.

NESTLÉ MALAYSIA CHARTER: INFANT FORMULA POLICY

The Group strongly supports the WHO Code that aims to protect, promote and support breastfeeding. In further conformity with the Malaysia Code of Ethics for the Marketing of Infant Foods and Related Products ("Malaysia Code of Ethics") which seeks to regulate appropriate marketing, distribution and proper use of breast milk substitutes, the Group has adopted the Nestlé Malaysia Charter: Infant Formula Policy to ensure that its efforts will respect a mother's freedom of choice and will not in any way undermine the superiority of breast milk.

WHO CODE OMBUDSPERSON SYSTEM

The Group has an internal WHO Code Ombudsperson System in place to monitor and strengthen its implementation of the Nestlé Malaysia Charter: Infant Formula Policy. The system allows any of the Group's employees to alert the Group via the appointed Ombudsperson of potential policy violations or raise concerns with regards to the marketing of Infant Nutrition products in a confidential way and outside the line management structure.

PERSONAL DATA PROTECTION

The Nestlé Malaysia Personal Data Guidelines outlines the requirements for the Group and its employees in handling and using personal data in compliance with the Personal Data Protection Act 2010 ("PDPA").

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

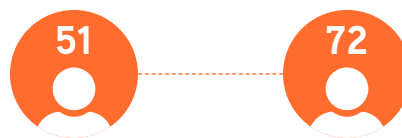
CORPORATE GOVERNANCE OVERVIEW STATEMENT

GOVERNANCE AT A GLANCE

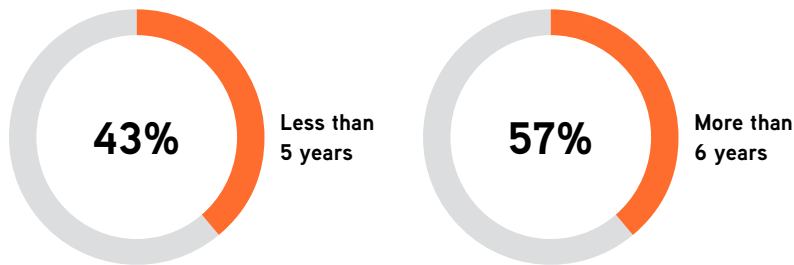
BOARD OF DIRECTORS

- 4** Independent
- 1** Non-Independent
- 2** Executive Directors

DIVERSITY OF AGE



DIVERSITY OF TENURE



NATIONALITY



BOARD AND BOARD COMMITTEE MEETING ATTENDANCE 2019

Name of Members

Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail
Chairman
Non-Independent Non-Executive Director

Dato' Mohd. Rafik Bin Shah Mohamad
Independent Non-Executive Director

Tan Sri Datuk (Dr.) Rafiah Binti Salim
Independent Non-Executive Director

Dato' Frits van Dijk
Independent Non-Executive Director

Dato' Dr. Nirmala Menon
Independent Non-Executive Director

Juan Aranols
Executive Director
Chief Executive Officer

Craig Connolly
Executive Director
Chief Financial Officer

SKILL AND EXPERIENCE OF DIRECTORS

Economic and Financial Acumen

Strategy and Risk

Sales and Marketing

Legal

BOARD ROLES AND THEIR RESPONSIBILITIES

Chairman

Responsible for the operation and leadership of the Board, ensuring its effectiveness and setting its agenda.

Chief Executive Officer

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's strategy and policy.

Independent Directors

The primary responsibility of Independent Non-Executive Director is to protect the interests of minority Shareholders and other stakeholders.

BOARD	AUDIT COMMITTEE	NOMINATION AND COMPENSATION COMMITTEE
5 out of 5	4 out of 4	2 out of 2
5 out of 5	4 out of 4	2 out of 2
5 out of 5	4 out of 4	2 out of 2
4 out of 5*	-	1 out of 2*
5 out of 5	-	-
5 out of 5	-	-
5 out of 5	-	-

*absent due to medical reasons

Global Experience	Medical and Health
Insurance	Public Policy and Regulatory
Governance	Human Resources
Corporate Knowledge	Investor Business

Executive Directors

Responsible in implementing strategic direction, operational decisions and managing the day-to-day responsibilities of the Group, within the set of authorities delegated by the Board.

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.

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.

98%

MEETING ATTENDANCE RATE

CORPORATE GOVERNANCE OVERVIEW STATEMENT


LEADERSHIP AND EFFECTIVENESS

Trust is the commonality that runs through everything we do, and we have a responsibility to look after the relationships we have with all our stakeholders. The Board and the CEO, together with the Executive Leadership Team, are responsible for upholding good corporate governance and they instil a culture of upholding the Group’s code of ethics. The Group will do what is required to uphold its integrity and reputation, without exception and with the understanding that effective corporate governance within an ethical environment creates value for all stakeholders.



THE BOARD

The role of the Board is regulated in a formal Board Charter, which defines its authority and power. While retaining overall accountability, the Board has delegated authority to the CEO to run the day-to-day affairs of the Group. The CEO is supported by the Executive Leadership Team. The Board also created Board Committees to enable the Board to discharge its duties and responsibilities properly and to fulfil its decision-making process effectively. The Board plays a pivotal role in strategy planning and establishing benchmarks to measure the Group’s strategic objectives. The Executive Directors implement strategies and operational decisions, and the Non-Executive Directors provide an independent perspective and complement the skills and experience of the Executive Directors. They assess strategy and performance, internal control and risk management, governance and sustainability efforts of the Group.

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

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

- 1 Review, approve and adopt the Company's strategic plans and annual budgets.
- 2 Declaration of dividends, approval of financial statements, accounts and quarterly reports of the Company.
- 5 Significant capital investment and disposal of material assets from the existing business to a third party.
- 6 Increase or reduction of the Company's subsidiary(ies)'s issued capital.

BOARD COMMITTEES

The Board has established two Board Committees with delegated authority from the Board. Each Board Committee is chaired by a Non-Executive Director.

The Audit Committee

The Audit Committee's main objective is to assist the Board in fulfilling its oversight responsibilities, in particular, evaluating the adequacy and efficiency of accounting policies, internal controls and financial and corporate reporting processes. In addition, the Audit Committee assesses the effectiveness of the internal auditors and the independence and effectiveness of the external auditors.

The Nomination and Compensation Committee

The Nomination and Compensation Committee's main objective is to assist the Board in ensuring that the Board comprises of individuals with the necessary skills, knowledge and experience for the effective discharge of its responsibilities; and in matters relating to the remuneration of the Board, the Management Team and employees of the Group.

As part of its nomination functions, it is responsible for assessing the independence of Non-Executive Directors,

evaluating the Board effectiveness and identifying suitable candidates for appointment to the Board. The Nomination and Compensation Committee also recommends to the Board the re-election/retention of Directors and reviews the succession planning for the Directors and the Nestlé Leadership Team. Under its remuneration function, the Committee is empowered by the Board to assess and approve the broad remuneration strategy for the employees of the Group and review the remuneration package for the Executive Directors, the Nestlé Leadership Team and the Non-Executive Directors.

COMMITMENT

All members of the Board are committed and devoted to carrying out their roles and responsibilities.

To facilitate the Directors' planning, an annual meeting calendar is prepared and given to the Directors at least eight months in advance before the beginning of each new financial year. Whenever any directions or decisions are required 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 2019, seven Written Resolutions ranging from administrative to operational issues were approved by the Board.

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 Paragraph 15.06 of the Listing Requirements which allows for a Director to sit on the board of up to five public listed companies. Such notification of new directorship is expected to include his/her continued time commitment to the Board.

Annually, the Directors will declare their directorships in other companies and organisations and give assurance on their time commitments in carrying out their duties and responsibilities to the Company.

None of the Directors hold more than five directorships in any other public listed companies at any point of time.

3

Acquisition, divestment or closure of business.

4

Establishment of new substantial businesses.

7

Any other form of corporate restructuring not previously listed.

8

The change of name of any company within the Group and establishment of any new subsidiary company.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

To enable the Board to discharge its duties, all Directors receive appropriate information in advance for the Board meetings. At least 14 days prior to each Board and Board Committee meetings, 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, reading materials are generally forwarded to the Directors at least five business days prior to the Board or Board Committee meetings for the Directors to have an understanding of the subject matter, be prepared to deal with matters to be discussed at the meetings and to enable the Board and Board Committees to make effective decisions.

STRATEGY

- Review and approve the Group's strategies and plans, and the implementation thereof.
- Receive updates on the business and operational activities.
- Receive updates on the divestment of the Chilled Dairy business.
- Receive updates on the divestment of the Petaling Jaya factory.

FINANCIAL

- Review and approve the cumulative full year results for the financial year ended 31 December 2018 and approve the cumulative 1st half year results for the financial year ended 31 December 2019.
- Review and approve the Directors' Report and Audited Accounts for the financial year ended 31 December 2018.
- Review and approve the Quarterly Results.
- Review the report on the Company's quarterly and previous year's performance and outlook for the year.
- Review the solvency position of the Company and approve dividend payments.
- Review and approve the financial results announcements.

GOVERNANCE

- Note the Company's announcements to Bursa Malaysia Securities Berhad ("Bursa Malaysia").
- Reaffirm the Directors' Written Resolutions passed by the Board.
- Note the Minutes of Meetings of the Audit Committee, the Nomination and Compensation Committee meetings.
- Review and approve the Board Committees' reports and recommendations.
- Review and approve the Board Charter, Terms of Reference of the Audit Committee and the Nomination and Compensation Committee.
- Review and approve the Diversity Policy.
- Review and approve the Remuneration Policy.
- Review and approve the Corporate Governance Report and the Annual Report 2018.
- Review the Board Effectiveness Evaluation ("BEE")
- Review and approve the 2019 Board Improvement Programme pursuant to the findings of the 2018 BEE.
- Review the composition and skills of the Board and Board Committees.
- Review the performance and effectiveness of the Board, Board Committees and individual Directors.
- Review and note the NCBC, NCBP and Anti-Corruption Guidelines.
- Recommend the re-appointment of the Group's external auditors for the financial year ending 31 December 2019 and for the Directors to fix their remuneration.
- Review of the Group's compliance with the Main Market Listing Requirements of Bursa Malaysia ("Listing Requirements").

BOARD DURING

- Note the amendments/updates to the Listing Requirements and Companies Act 2016.
- Note Section 17A of the MACC Act.
- Review the submission of the semi-annual returns to Bursa Malaysia Securities Berhad.
- Review the compliance with the MCCG and Companies Act 2016.
- Review the MCCG gap assessment and evaluate the next steps therefrom.
- 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 2020.

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. 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.

- Review of the Malaysian Accounting Standards Board and other relevant legal and regulatory requirements with regards to the quarterly and year-end financial statements.
- Review and approve the general budget.
- Review and approve the capital expenditure budget.
- Receive updates on taxes, including Sales & Service Tax ("SST") & Sugar Sweetened Beverages Tax.
- Receive updates on the Recurrent Related Party Transactions by the Group.
- Receive updates on the quarterly Nestlé S.A. results.

RISK MANAGEMENT AND INTERNAL CONTROL

- Receive updates on Enterprise Risk Management, mitigating measures and updates.
- Review the cyber security risks of the Group.
- Review the regulatory landscape risks impacting the business.
- Receive report on major litigation, claims and/or issues with substantial financial impact (if any).
- Receive updates on the distributors' credit risks and management.
- Review and approve the Statement of Risk Management and Internal Control for the Annual Report.
- Review the reports of the Nestlé Internal Audit, the recommendations and management responses.
- Review the reports of the external auditors.

IN ACTION THE YEAR

SHAREHOLDERS & ENGAGEMENT

- Review and approve the Circular to Shareholders in relation to the Proposed Renewal of Shareholders' Mandates for Recurrent Related Party Transactions of a revenue or trading nature.
- Review the preparation for the 2019 Annual General Meeting.
- Receive updates on Quarterly Analyst & Investor briefings.

LEADERSHIP & PEOPLE

- Review the Board succession plans, Board composition and Board Diversity (including gender, ethnicity/cultural background and age diversity).
- Review the tenure of Directors.
- Review and assess the retirement of Directors by rotation, the re-election/retention of Directors.
- Review and assess the Board trainings.
- Note the succession planning and the management development of 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 note the resignation and appointment of Directors and Alternate Directors.
- Receive updates from the Group Human Resource Department.
- Review and approve the National Union of Commercial Worker Collective Agreement charter mandate.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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 needs of the Board and the Company's Diversity Policy.

DIRECTORS' INDUCTION AND DEVELOPMENT

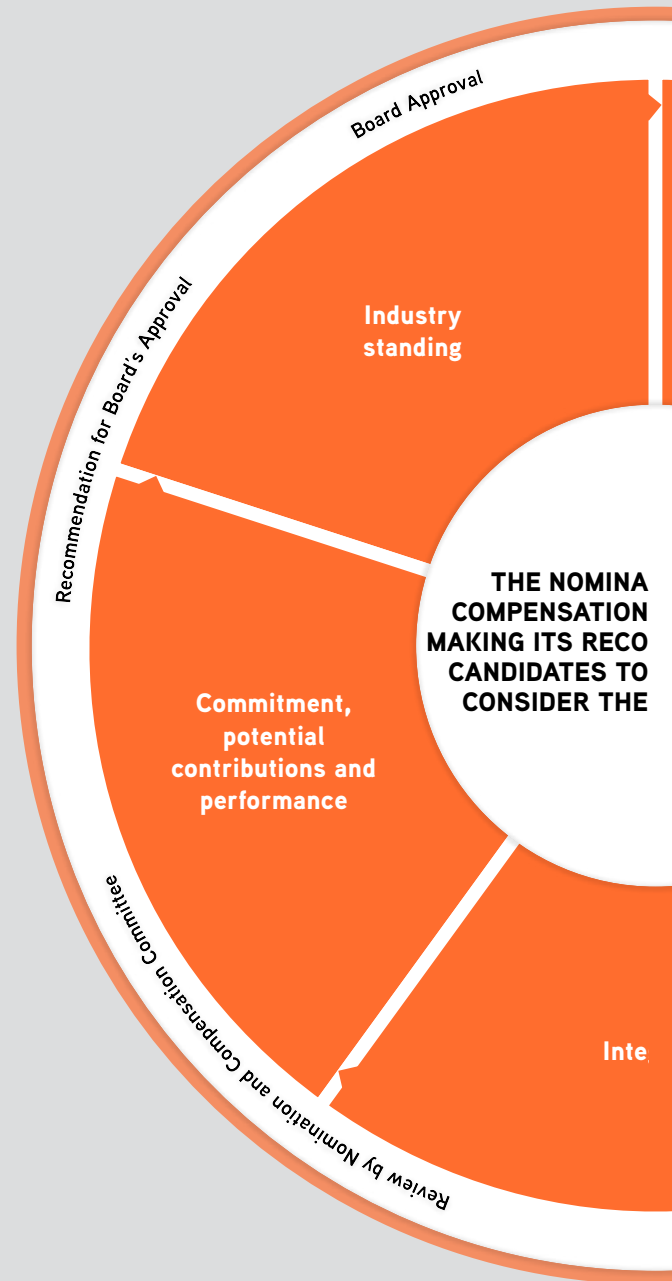
Directors are provided with the Director's Handbook that contains meeting calendar and Board Agenda for the year, Board Charter, Terms of Reference for the Audit Committee and the Nomination and Compensation Committee, respectively, Nestlé's Guidelines and Policies, the MCCG and other relevant documents. The Directors are also kept abreast with current changes and development of new statutory and regulatory requirements such as the Companies Act 2016, Section 17A of the MACC Act and the Listings Requirements. If required, meetings are arranged with the Chairman, other Directors and/or the Nestlé Leadership Team to enable Directors to familiarise themselves with the Group's businesses.

Ongoing development for the Directors include management presentations, access to internally and externally run training programmes and the sharing of relevant industry updates, regulatory and economic news and analyses. The list of trainings attended by each of the Director and the Company Secretary is set out in pages 14 to 15 of this report.

DIRECTORS' ACCESS TO MANAGEMENT INFORMATION

All Directors are afforded unrestricted access to the Management Team, including the Company Secretary, independent professional advice is made available under appropriate circumstances and at the Company's expense.

THE COMPANY IS GUIDED BY THE FOLLOWING PROCESS AND PRO



In the case of candidates for the position of Independent Non Committee will also evaluate the candidate's ability to discharge Independent Non

PROCEDURES FOR NOMINATION OF NEW CANDIDATES TO THE BOARD



-Executive Directors, the Nomination and Compensation such responsibilities/functions as expected from an -Executive Directors

RE-ELECTION/RETENTION OF DIRECTORS

Appointments to the Board are formal and transparent. Proposals for election/re-election/retention to the Board are, after review, recommended by the Nomination and Compensation Committee and are considered by the Board as a whole.

ASSESSMENT AND RECOMMENDATION ON RE-ELECTION OF DIRECTOR

The Constitution of the Company provides that, at every annual general meeting ("AGM") of the Company, one-third of the Directors shall retire from the Board by rotation. If eligible, such Directors may offer themselves for re-election.

At the upcoming AGM, the following Directors will be retiring in accordance with Article 97.1 of the Company's Constitution, and the Nomination and Compensation Committee upon its evaluation of the Directors' performance and contribution, has recommended that the following Directors are eligible for re-election:

- i. Dato' Mohd. Rafik Bin Shah Mohamad**
- ii. Tan Sri Datuk (Dr.) Rafiah Binti Salim**

Tan Sri Datuk (Dr.) Rafiah Binti Salim, who has reached the retirement age of 72 years old (as per Nestlé S.A.'s guideline) will not be seeking for re-election. She will retain office until the conclusion of the 36th AGM and will retire in accordance with Article 97.1 of the Company's Constitution.

ASSESSMENT AND RECOMMENDATION ON RETENTION OF DIRECTOR

The Nomination and Compensation Committee upon its performance evaluation and assessment of independence, has recommended for the retention of the following Director as an Independent Director:

- Dato' Mohd. Rafik Bin Shah Mohamad**

Dato' Mohd. Rafik Bin Shah Mohamad was initially appointed as a Non-Independent Non-Executive Director before re-designated as an Independent Non-Executive Director on 7 August 2008.

The recommendation to retain Dato' Mohd. Rafik Bin Shah Mohamad as an Independent Director is supported by his 25 years of experience in the Nestlé Group and his vast experience in the financial industry. Dato' 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 extensive knowledge and experience, he continuously brings guidance and analytical input on the financial, strategy matters and the operations of the Company, and able to critically challenge the management.

He will also continue to serve as Chairman of the Audit Committee, in line with the requirements of Paragraph 15.10 of the Listing Requirements.

The two Directors have abstained from the deliberations and decision at the Board and Board Committee meetings with regards to their eligibility to stand for re-election/retention.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

LIST OF TRAININGS

During the year under review, the Board had undertaken an assessment of the training needs of its Directors. The Directors and the Company Secretary have since attended the following training programmes, internally and externally, to further enhance their knowledge and enable them to discharge their duties and responsibilities more effectively:

Name of Director	Internal Training	External Training
Tan Sri Dato' Seri Syed Anwar Jamalullail	In the areas of: <ul style="list-style-type: none"> • Coffee & Beverages Business. • Manufacturing operations. • Divestment of Business. • Creating Shared Value. • Sugar Sweetened Beverages Tax and Healthier Choice Logo criteria. • Food Trends. • Sales & e-Commerce. 	<ul style="list-style-type: none"> • PNB Leadership Forum. • Workshop on Corporate Governance.
Dato' Mohd Rafik Bin Shah Mohamad	In the areas of: <ul style="list-style-type: none"> • Coffee & Beverages Business. • Manufacturing operations. • Divestment of Business. • Creating Shared Value. • Sugar Sweetened Beverages Tax and Healthier Choice Logo criteria. • Food Trends. • Sales & e-Commerce. 	<ul style="list-style-type: none"> • Governance Symposium. • Audit Committee Conference 2019. • Case study workshop for Independent Directors. • CG Advocacy Programme - Cyber Security in the Boardroom. • Session On Corporate Governance & Anti-Corruption. • Workshop on Corporate Governance.
Tan Sri Datuk (Dr.) Rafiah Binti Salim	In the areas of: <ul style="list-style-type: none"> • Coffee & Beverages Business. • Manufacturing operations. • Divestment of Business. • Creating Shared Value. • Sugar Sweetened Beverages Tax and Healthier Choice Logo criteria. • Food Trends. • Sales & e-Commerce. 	<ul style="list-style-type: none"> • Reading the Signs : The Next Financial Crisis & Potential Impact on Asia. • CG Watch, How Does Malaysia rank. • Sustainability Inspired Innovation : Enabler of the 21st Century, Thought Leadership Series. • International Directors' Summit 2019. • Workshop on Corporate Governance.
Dato' Frits van Dijk	In the areas of: <ul style="list-style-type: none"> • Coffee & Beverages Business. • Manufacturing operations. • Divestment of Business. • Creating Shared Value. • Sugar Sweetened Beverages Tax and Healthier Choice Logo criteria. • Food Trends. 	

Name of Director	Internal Training	External Training
Dato' Dr. Nirmala Menon	In the areas of: <ul style="list-style-type: none"> • Coffee & Beverages Business. • Manufacturing operations. • Divestment of Business. • Creating Shared Value. • Sugar Sweetened Beverages Tax and Healthier Choice Logo criteria. • Food Trends. • Sales & e-Commerce. 	<ul style="list-style-type: none"> • Case Study Workshop for Independent Directors. • Directorship Journey – Exclusive Fireside Chat. • Workshop on Corporate Governance.
Juan Aranols	In the areas of: <ul style="list-style-type: none"> • Coffee & Beverages Business. • Manufacturing operations. • Divestment of Business. • Creating Shared Value. • Sugar Sweetened Beverages Tax and Healthier Choice Logo criteria. • Food Trends. • Sales & e-Commerce. • Unconscious Bias. 	<ul style="list-style-type: none"> • Workshop on Corporate Governance.
Craig Connolly	In the areas of: <ul style="list-style-type: none"> • Coffee & Beverages Business. • Manufacturing operations. • Divestment of Business. • Creating Shared Value. • Sugar Sweetened Beverages Tax and Healthier Choice Logo criteria. • Food Trends. • Sales & e-Commerce. • Unconscious Bias. 	<ul style="list-style-type: none"> • Mandatory Accreditation Programme. • Workshop on Corporate Governance.
Tengku Ida Adura Binti Tengku Ismail	In the areas of: <ul style="list-style-type: none"> • Coffee & Beverages Business. • Manufacturing operations. • Divestment of Business. • Creating Shared Value. • Sugar Sweetened Beverages Tax and Healthier Choice Logo criteria. • Food Trends. • Sales & e-Commerce. • Unconscious Bias. 	<ul style="list-style-type: none"> • Workshop on the Companies Act 2016 & Secretarial Practices. • SSM National Conference 2019. • MCCG – Adoption of Practices for Meaningful Corporate Governance. • Workshop on Corporate Governance. • The Company Constitution Pre & Post Companies Act, 2016. • Workshop on the Companies Act 2016 & Secretarial Practices. • Section 17A of MACC Act. • Business Ethics & Integrity Seminar : Enhancing Business Success Through Ethical Practice. • Technical Briefing for Company Secretaries of Listed Issuers: Recent Developments in Listing Requirements & Chapter 10 Case Studies.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

BOARD EFFECTIVENESS EVALUATIONS

The Company undertakes a Board Effectiveness Evaluation (“BEE”) annually to ensure that the Board is functioning well. This includes reviewing whether the Board composition is appropriate, 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. 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, diverse, skilled Board across a wide range of areas and expertise is consistently maintained. It also addresses the gaps and training areas for the Board.

Board evaluations, when designed effectively, completed and analysed thoughtfully, can identify areas of strengths and improvement considerations, prompting the Board to make changes that positively impact its performance.

Against this backdrop, KPMG Management & Risk Consulting Sdn. Bhd. (“KPMG Consulting”) was enlisted by the Company to lend rigour and objectivity to the assessments of the Board, Board Committees and individual Directors, including the Independent Directors and Executive Directors, for the financial year ended 31 December 2019.

This exercise was undertaken through the modalities of questionnaires and one-to-one interviews with all individual Directors. The process covered a variety of aspects associated with board effectiveness, including the composition of the Board, reporting lines between the Board and the holding company, Nestlé S.A., the content and administration of Board and Board Committees meetings, and succession planning.

The specific assessment topics include an evaluation of the Board and each Board member’s skill sets, premised on a self-assessment and peer review model that also extends to Independent Directors based on the criteria prescribed by the Listing Requirements. In addition, the BEE also included an assessment of each of the Board Committees.

EVALUATION HAS BEEN POSITIVE BASED ON THE RESPONSES AND FEEDBACK RECEIVED

ASSESSMENT FOCUS

Board of Directors Assessment

- Board mix and composition
- Quality of information and decision-making
- Boardroom activities
- Chairman’s role
- Relationship with holding company

Directors’ Skill Set Assessment

- Leadership and strategy
- Legal and regulatory requirements
- Corporate governance, risk management and internal controls
- Accounting and financial reporting
- Industry experience
- Operations and quality management
- Information technology

Directors’ Self & Peer Assessment

- Contribution and performance
- Calibre and personality
- Chief Executive Officer

Independent Directors’ Self-Assessment

- Background
- Economic relationship
- Family relationships
- Tenure
- Qualitative assessment

Audit Committee Assessment

- Composition and governance
- Meeting administration and conduct
- Group synergy and reporting line
- Oversight of financial reporting process, including internal controls and the internal audit function

Nomination and Compensation Committee Assessment

- Composition and governance
- Meeting administration and conduct
- Duties and responsibilities in relation to nomination matters
- Duties and responsibilities in relation to remuneration matters

RESULTS

The overall score of the BEE 2019 was above the market average score and the particular highlight is the Company's clearly defined culture and governance structure which are seen as distinctive advantages. The BEE 2019 results may be categorised into the following segments:

A. Strengths - Strengths and numerous positive highlights were identified in the BEE 2019 and these may be clustered as follows:

BOARD COLLEGIALLY ROOTED WITHIN NESTLÉ CULTURE

The Board operates cohesively and is guided by Nestlé's intrinsic culture and values. The clear reporting line and Group governance structure between Nestlé and its holding company, Nestlé S.A. facilitate a seamless interworking process.

BOARDROOM DYNAMICS

There is an uplift in the boardroom dynamics which is driven by a healthy and transparent working environment between the Board and Senior Management.

LEADERSHIP OF BOARD AND BOARD COMMITTEES

The respective Chairman of the Board and Board Committees are known to manifest the "3Es trait" envisaged of a leader (i.e. Engaging, Enabling and Encouraging).

INFORMATION FLOW AND BOARDROOM INNERWORKINGS

Information flow and boardroom innerworkings are characterised by the quality of the Board papers, the advanced scheduling of meetings and the escalation of matters by the Board Committees to the Board.

B. Improvements - Areas that have been recommended for improvement were also identified in the BEE 2019 and these may be clustered as follows:

THE EFFICACY OF THE NOMINATION FUNCTIONALITIES

To have a more robust process of nomination of potential new Directors, in the context of a multinational group.

OVERSIGHT OF STRATEGY IMPLEMENTATION

There is potential to further enhance the depth of the Board's deliberations on Nestlé's strategy implementation.

DIGITAL OVERSIGHT

Reinforcement of digital capabilities may be needed at the Board level to elevate the Company's digital and technological initiatives.

REMUNERATION OF NON-EXECUTIVE DIRECTORS

It would be timely to benchmark the remuneration policy of Non-Executive Directors against comparable peers.

The report of the BEE 2019 provided a detailed analysis of the feedback on each of the issues and confirmed that the Board continues to perform at a high standard. The results of the BEE 2019 are then utilised as a basis for a refined Board Improvement Programme to be implemented in 2020.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

DIRECTORS' REMUNERATION

The Board adopts a remuneration policy which sets out the criteria to determine the Director's remuneration, including:

- complexity of the Company's activities;
- level of responsibility;
- expertise;
- industry benchmarks against similar companies;
- market practice; and
- executive Directors' remuneration as guided by its holding company, Nestlé S.A.

The Non-Executive Directors receive fees and allowances for their Board and Board Committee participation. When overseas travel is required, all reasonable travelling and accommodation expenses are paid by the Company.

The Nomination and Compensation Committee recommends to the Board on the proposed fees and allowances to be paid to each Non-Executive Director based on the approved Board remuneration in line with the Remuneration Policy. The Board then reviews the proposed fees and allowances and approves for it to be tabled for the Shareholders' approval at the AGM.

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

A. Fees for acting as a Director	B. Fees for assuming additional responsibilities	C. Meeting attendance allowance
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.	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.	An attendance allowance to compensate the Non-Executive Directors for their personal expenses to attend the meetings of the Board and Board Committees.

The Non-Executive Directors' fees for a particular financial year will only be paid upon approval by the Shareholders at subsequent year's AGM.

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 2019 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	450,100	0	68,000	518,100
Dato' Mohd Rafik Bin Shah Mohamad	246,800	0	22,000	268,800
Tan Sri Datuk [Dr.] Rafiah Binti Salim	214,200	0	22,000	236,200
Dato' Frits van Dijk	183,400	0	10,000	193,400
Dato' Dr. Nirmala Menon (appointed on 27 April 2018)	100,000	0	10,000	110,000
Tan Sri Datuk Yong Poh Kon (retired on 26 April 2018)	54,200	0	0	54,200
Toh Puan Dato' Seri Hajjah Dr. Aishah Ong (retired on 26 April 2018)	50,000	0	0	50,000
Juan Aranols	0	1,285,008	1,880,166	3,165,174
Craig Connolly (appointed on 1 February 2019)	0	660,000	914,833	1,574,833
Martin Peter Kruegel (resigned on 31 January 2019)	0	114,280*	634,573	748,853
TOTAL	1,298,700	2,059,288	3,561,572	6,919,560

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.

* Including leave encashment

REMUNERATING HUMAN CAPITAL

The Nomination and Compensation Committee ensures that the remuneration practices and policies support the delivery of the business strategy.

Nestlé has an established remuneration policy and set of procedures, approved by the Board and in line with the global Nestlé practices. The standards and practices drive appropriate decision-making and behaviours, in line with business strategy, risk management practices and long-term group-wide interests. Executives, managers and employees are remunerated in proportion to the value they contribute to the organisation and the value they create for its stakeholders. Nestlé’s approach to remuneration is to promote the achievement of its strategic objectives and encourage individual performance through fair, responsible and transparent remuneration.

Fair competitive remuneration is critical in attracting and retaining the best people. The following are the key considerations taken:

- | | | |
|---|---|--|
| <ul style="list-style-type: none"> ● Remuneration practices which encourage behaviour consistent with the Group’s purpose and values. | <ul style="list-style-type: none"> ● Remuneration practices which do not encourage excessive risk taking outside of the Group’s risk appetite. | <ul style="list-style-type: none"> ● Remuneration practices that are not based on race and gender discrimination but aim to achieve internal and external parity. |
| <ul style="list-style-type: none"> ● The focus is on total remuneration and is referenced to “like-for-like” market remuneration levels, adjusted for relative experience and responsibility levels. | <ul style="list-style-type: none"> ● The total remuneration package is geared to meeting both short-term operational goals and long-term strategic objectives. | <ul style="list-style-type: none"> ● Fixed and variable pay is appropriately structured according to seniority and roles. |
| <ul style="list-style-type: none"> ● A strong correlation exists between performance and total remuneration, allowing for upside opportunities for exceptional performance. | <ul style="list-style-type: none"> ● Individual rewards are determined according to Group, business unit and individual performance. | <ul style="list-style-type: none"> ● The cost to the business is an important consideration in the design of remuneration structures to ensure an efficient approach to remuneration. |

CORPORATE GOVERNANCE OVERVIEW STATEMENT

ACCOUNTABILITY

FINANCIAL CONTROL AND REPORTING

The Board is responsible for ensuring that the Group maintains adequate and accurate records for timely reporting of the financial position of the Group and the results of its activities. To assist the Board in effectively discharging this duty, financial reporting procedures and disciplines have been put in place at all levels across the Group.

The Board is responsible for ensuring that reports issued by the Company enable stakeholders to make informed assessments of the Group's performance and prospects. No accounting irregularities were reported by either internal or external auditors during the period under review.

INTERNAL CONTROL AND RISK MANAGEMENT

The MCCG requires the Directors to assess the effectiveness of the Group's systems of internal control, which include financial, operational and compliance controls, and the system of risk management. The Audit Committee reviews the systems and controls while the Board considers the overall state of the risks to the business, the Group's appetite for risk and the countermeasures in place. The Board retains overall responsibility for the Group's internal controls and for reviewing their effectiveness and for approving all related policy. These internal controls are designed to manage rather than eliminate risk, and can only provide reasonable, and not absolute, assurance against material loss.

The Board has put in place an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The process is regularly reviewed by the Audit Committee on behalf of the Board to ensure that the procedures implemented continue to be effective and, where appropriate, recommendations are made to the Management Team to improve the procedures. The Company's system of internal financial control aims to safeguard the Group's assets, ensures that proper accounting records are maintained, that the financial information used within the business and for publication is reliable, that business risks are identified and managed and that compliance with appropriate legislation and regulation is maintained.

Further, the Group's internal audit examines, evaluates and reports on and makes recommendations to the Audit Committee and the Board regarding the adequacy and effectiveness of the Group's risk management process.

The Board confirms it has monitored the Group's risk management and internal control systems and carried out a review of their effectiveness covering all material controls, including financial, operational and compliance controls. For further information on Risk Management and Internal Control, please refer to pages 33 to 38 of this report.

NESTLÉ INTERNAL AUDIT

Nestlé Internal Audit (“NIA”) plays a major role in monitoring the internal governance of the Group. The Head of NIA leads a department of six qualified internal auditors.

The NIA provides an independent and objective assurance to the Group, designed to add value and improve operations. It assists the Group to accomplish its objectives by bringing a systematic, disciplined approach in order to evaluate and improve the effectiveness of risk management, internal control and governance processes, in compliance with corporate governance standards required by the Board and the Audit Committee.

Internal audit reports functionally to the Audit Committee and administratively to the Chief Financial Officer (“CFO”). The Audit Committee receives regular reports on the results of the internal audit’s reviews and the recommendations of actions to be carried out from the reviews.

The Head of NIA ensures that the internal audits conducted during the period under review were completed in line with the Internal Audit Charter and recognised internal audit methodology.

Internal audit is viewed across the Group as a value-added service and the internal auditors liaise with the Management in order to develop or improve control systems. The co-operation between Management and internal audit facilitates ongoing control system improvements.

EXTERNAL AUDITORS

How the Group ensures the independence of the external auditors:

7
Years

The lead audit partner is subject to rotation every seven years

External auditors is required to give an annual written confirmation on their independence

THE WORKINGS OF NESTLÉ INTERNAL AUDIT

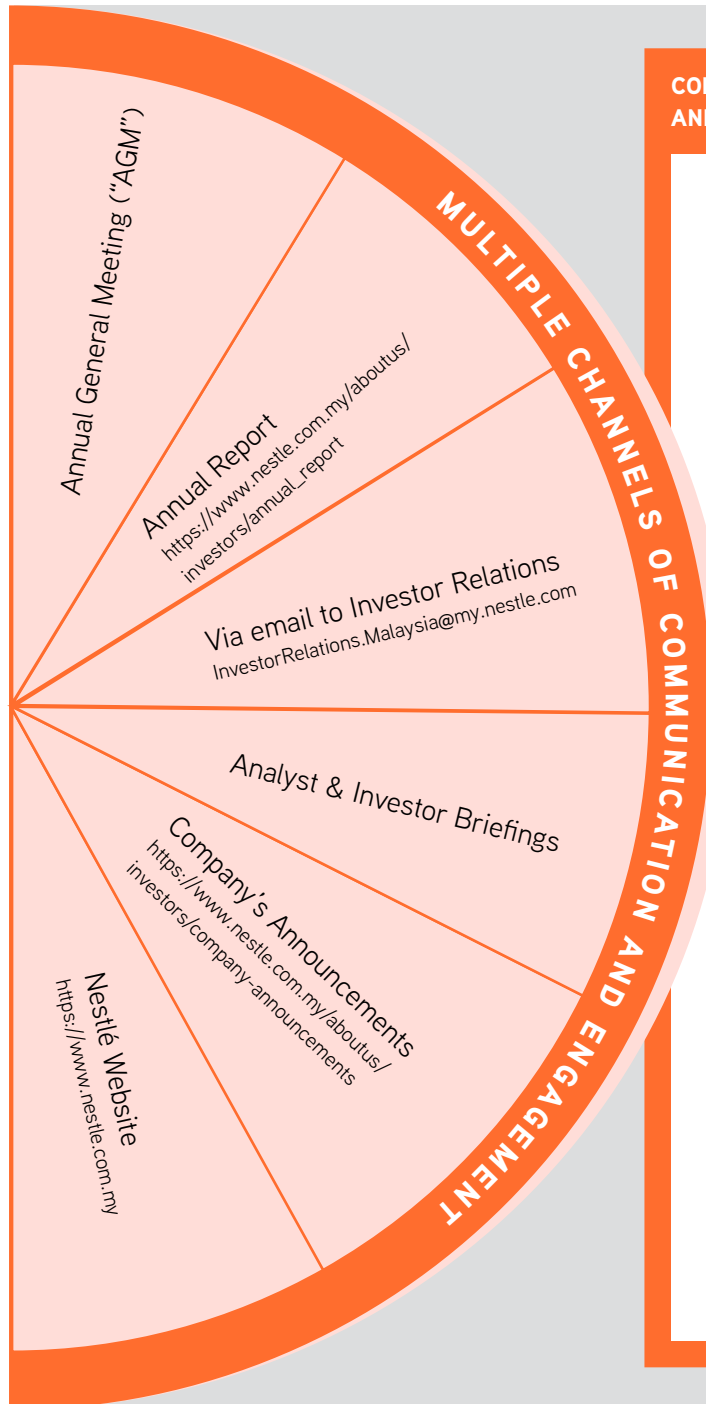
NIA is required to:

- demonstrate integrity;
- demonstrate competence and due professional care;
- be objective and free from undue influence (i.e. be independent);
- align with the strategies, objectives and risks of the organisation;
- be appropriately positioned and adequately resourced;
- demonstrate quality and continuous improvement;
- provide risk-based assurance;
- be insightful, proactive and future-focused; and
- promote organisational improvement.

The Group’s external auditors for the financial year ended 2019 is KPMG PLT. Their independence as external auditors is a fundamental governance principle. Accordingly, the terms “independent auditors” and “external auditors” are used interchangeably.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

ENGAGEMENT



COMMUNICATION WITH SHAREHOLDERS AND OTHER STAKEHOLDERS

Nestlé recognises the importance of communicating the Company's business strategies, progress of its strategic initiatives and performance to its Shareholders and stakeholders regularly.

These updates are driven through multiple channels of communication and engagement which allows the Company to gauge feedback from both Shareholders and the investment community. Additionally, the CFO, Mr. Craig Connolly who heads the Investor Relations function, along with the Company Secretarial team will readily avail themselves for any enquiries from the Shareholders and stakeholders.

Further, the Board in compliance with the Listing Requirements and the Corporate Disclosure Guide from Bursa Malaysia Berhad will issue timely and accurate quarterly statements to Shareholders and stakeholders on the Company's performance. The CFO also conducts quarterly Analyst & Investor briefings for its Shareholders and stakeholders.

The Company's objective is to maintain effective communication with its Shareholders and investors at all times to enable them to make informed investment decisions and for their feedbacks as well as concerns to be understood and answered.

Nestlé also maintains continuous engagement with other stakeholders, including its employees, consumers, regulators, suppliers and society in general. Its engagement process involves stakeholder identification; mapping and defining current and emerging issues; and carrying out continuous engagement initiatives. The full details of Nestlé's stakeholder engagements are available on pages 12 to 17 of the Nestlé in Society 2019 Report.

SHAREHOLDERS

Shareholders are one of our key stakeholders and from a corporate governance perspective, the key elements of the relationship can be illustrated as follows:

SHAREHOLDERS' RIGHTS

- Shareholders have a set of rights including to vote and attend general meetings and to receive declared dividends.
- Shareholders have the right to convene general meetings and to put forward proposals.
- Shareholders can make enquiries with the Board through the Company Secretary via email at CompanySecretary.nestlé@my.nestlé.com or by posing questions at the AGM.

OUR RESPONSIBILITY TO SHAREHOLDERS

- The Board and Senior Management recognise their responsibilities to represent the interests of Shareholders as a whole.
- Our goal is to create long-term sustainable value for Shareholders.

ANNUAL GENERAL MEETING

Shareholders are encouraged during the AGM, to actively participate in discussing the resolutions proposed or on future developments of the Company's operations in general, provide their feedback on the Company's performance and participate in the Questions & Answers ("Q&A") session.

The Company also holds a press conference immediately after the AGM where the Chairman, CEO, CFO and if necessary, selected members of the Senior 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.

OUR AGM is an important event for our Shareholders. It:

- is attended by our Board, the Senior Management Team and the Company's external auditors to answer questions raised and provide clarification as required by Shareholders;
- includes a presentation by our CEO;
- allows resolutions to be voted on by poll (instead of show of hands), the results of which are announced on the same day;
- provides an opportunity for our Shareholders to raise questions in a dedicated interactive Q&A session; and

The AGM minutes, including a summary of the Q&A session are published in the Company's website after the meeting.

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 25 April 2019 (the date of the last AGM) to 2 March 2020, are as follows:

- purchase of raw materials, semi-finished, finished food products such as milk, cocoa, coffee, cereal, etc. and other services from Nestlé affiliated companies which amounted to approximately RM916 million;
- payment of royalties for the use of trademarks for the sale of food products such as milk, cocoa, coffee, cereal, etc. to Nestlé affiliated companies amounting to approximately RM247 million;
- payment for information technology shared services for use and maintenance of information technology services to Nestlé affiliated companies which amounted to RM30 million;

- sale of food products to Nestlé affiliated companies amounting to approximately RM863 million;
- payment for shared services of approximately RM2.2 million for Cereal Partners (Malaysia) Sdn. Bhd., RM1.6 million for Purina Petcare (Malaysia) Sdn. Bhd., RM1.6 million for Wyeth Nutrition (Malaysia) Sdn. Bhd. and RM4.4 million for Nestrade S.A.; and
- payment of interests for Intra Group Loan of approximately RM3.4 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 2019 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 2019. 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 MCGG.

This Corporate Governance Overview Statement was presented and approved at the meeting of the Board on 9 March 2020.

On behalf of the Board



Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail
Chairman

AUDIT COMMITTEE REPORT

DATO' MOHD. RAFIK BIN SHAH MOHAMAD

Chairman

AC



“The Committee was satisfied with the Group’s approach to, and the completeness and reasonableness of, financial reporting and significant financial judgements.”

COMPOSITION

The Audit Committee during the year comprised of the following Non-Executive Directors, a majority of them being Independent Directors.

Chairman

Dato' Mohd. Rafik Bin Shah Mohamad
Independent Non-Executive Director

- Chartered Accountant, Malaysian Institute of Accountants (MIA)
- Fellow of the Association of Chartered Certified Accountants (ACCA)

100%

Total Attendance 4/4

All members of the Audit Committee are financially literate and have significant experience working with public listed companies on financial matters and internal controls. They are able to comprehend and contribute on matters under the purview of the Committee. The Committee is chaired by Dato' Mohd. Rafik who is an Independent Director, a member of MIA and was appointed by the Board from its members. He is not the Chairman of the Board. The Committee is comprised of three members, who are all Non-Executive Directors and two of them are Independent Directors.

The Committee meets at least four times a year as a minimum and at other times as required. 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 the meetings of the Committee.

The Company Secretary acts as Secretary to the Committee and records the proceedings of the meetings. Although not Committee members, the CFO, the Head of NIA, the Head of Accounting & Consolidation and the external auditors, are invited to the meetings. As and when necessary, the Committee also extends meeting invites to relevant members of the Management Team for matters that require their input and clarifications. The Committee 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.

Members

Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail
Non-Independent Non-Executive Director

- Chartered Accountant
- Member, Malaysian Institute of Accountants (MIA)
- Member, Certified Practising Accountant (CPA) (Australia)



100%

Total Attendance 4/4

Tan Sri Datuk (Dr.) Rafiah Binti Salim
Independent Non-Executive Director

- Former Assistant Governor of the Central Bank of Malaysia



100%

Total Attendance 4/4



The Terms of Reference of the Audit Committee which includes its key objectives and responsibilities is available on the Company's website at www.nestle.com.my

CORPORATE GOVERNANCE OVERVIEW STATEMENT

AUDIT COMMITTEE REPORT

ROLE

The Audit Committee supports the Board by monitoring and reviewing the integrity of the financial statements, the adequacy of related disclosures, robustness of internal controls, fraud prevention measures and ensuring that robust risk management systems are in place. The Committee also reviews the consistency of, and any changes to accounting policies and standards, the effectiveness of external and internal audits and ensures the Company provides clear, complete, fair, balanced and understandable financial reports to Shareholders.

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.

During the year, the CFO, representatives of the external auditors, KPMG PLT (“KPMG”), the Head of NIA and the Head of Accounting & Consolidation, 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 twice during the year privately without the presence of the Executive Directors or the Management Team.

In addition to the meetings of the Committee throughout the year, the Committee Chairman met the Head of NIA, other members of the Finance & Control team and the Regional Audit Manager.

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.

Annual assessment of the Committee is also carried out and for the financial year ended 31 December 2019, the Committee and its individual members have performed well in the assessment.

In line with the change of external auditors by the Nestlé S.A Group of Companies, the Committee deliberated on the change of external auditors to take place. Prior to making its recommendations to the Board for the appointment of Ernst & Young PLT to be tabled at the 2020 AGM for Shareholders’ approval, the Committee had carried out an assessment under Paragraph 15.21 of the Listing Requirements to assess the suitability of Ernst & Young PLT to be appointed as the new external auditors.

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 24 February 2020 and approved by the Board on 25 February 2020.

MEETINGS

The Committee met four times during the financial year. The following summarises the key activities of the Committee in 2019:

AREA OF FOCUS	MATTERS CONSIDERED
FINANCIAL REPORTING	<ul style="list-style-type: none"> Review and approve the cumulative full year results for the financial year ended 31 December 2018 and cumulative first half year results for the financial year ended 31 December 2019. Review and approve the Directors' Report and Audited Financial Accounts for the financial year ended 31 December 2018. Review and approve the Quarterly Results. Review the proposal of dividend and solvency of the Company before recommending for the Board's approval. Review the financial results announcements before recommending for the Board's approval. Review the Recurrent Related Party Transactions ("RRPT") of the Group. Review the methods and procedures in determining the terms of RRPT.
RISK AND INTERNAL CONTROL	<ul style="list-style-type: none"> Review and deliberate on the Enterprise Risk Management, potential major risks of the Group, the mitigating measures and updates. Review the cyber security risks of the Group. Review the regulatory landscape risks impacting the business. Review the report on major litigation, claims and/or issues with substantial financial impact (if any). Review the distributors' credit risks and management. Review the 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 the Nestlé Internal Audit's resource requirements, scope, adequacy and function. Review the overall performance of the Head of NIA (in her absence), the NIA team and the individual members of the NIA team. Review and took cognisance of the movements of the Nestlé Internal Audit team members. Review the current status of complaints received through the whistleblowing system. Review the Audit Plan for 2020.
EXTERNAL AUDIT	<ul style="list-style-type: none"> Review the external auditor's report and the responses from the Management Team. Discuss with the external auditors on issues/matters arising from the audit, held on 25 February 2019 and 26 August 2019 (in the absence of the Management Team). Review and discuss the change and transition of external auditors.
COMPLIANCE, GOVERNANCE AND OTHER MATTERS	<ul style="list-style-type: none"> Review 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 approve the draft Circular to Shareholders in relation to the Proposed Renewal of Shareholders' Mandates for RRPT of a revenue or trading nature. Receive updates on the Nestlé Malaysia Group Retirement Scheme (Pension Fund). Review updates on the changes in the Finance & Control Department. Review the outcome of Assessment of the Objectivity, Independence and Quality of Service Delivery of the Group's external auditors for the year ended 31 December 2018 and to ensure the external auditors meets the criteria provided by the Listing Requirements (in the absence of the external auditors). Recommend the re-appointment of the Group's external auditors for the financial year ending 31 December 2019 and for the Directors to fix their remuneration. Review and approve the Statement on Risk Management and Internal Control. Review the evaluation of the Audit Committee Assessment. 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 2018. Review the MCCG gap analysis and evaluate the next steps therefrom. Discuss Section 17A of the MACC Act. Review the effectiveness of the Audit Committee meetings. Approve the Audit Committee Agenda for 2020.

PRIORITIES FOR 2020

IN THE COMING YEAR, THE COMMITTEE WILL FOCUS ON:

- Supporting the smooth transition of the new external auditors, Ernst & Young PLT, once approved by the Shareholders at the AGM.
- Ensure plans are in place for the transition of the new Audit Committee Chairman.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

AUDIT COMMITTEE REPORT

NESTLÉ MALAYSIA INTERNAL AUDIT DEPARTMENT

Nestlé Internal Audit (“NIA”) is administered as a department within the Finance & Control function in the Group but reports functionally to the Audit Committee and the Nestlé Internal Audit (Center) of Nestlé S.A. in 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 35 to 36 of this report. 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 review performed by NIA is based on the Standards for the Professional Practice of Internal Auditing Framework and is in line with the Internal Audit Charter. The Internal Audit Charter was recently reviewed by the Audit Committee.

The NIA undergo a formal recertification periodically, with the last certification exercise conducted in 2016. The objectives of the re-certification exercise are:

- assess NIA compliance to the International Standards for Internal Audit established by the Institute of Internal Auditors;
- identify areas where NIA can maximise performance and adding more value to the Nestlé organisation; and
- provide NIA with an external benchmark against similar industry.

The next certification process will take place in 2020 and it will be conducted by an external certifier, in line with the Global Nestlé Internal Audit certification requirements.

The NIA is led by Miss Masita Mohamad Jalil, age 45 years old. She has served the Group for 17 years, eight years in an internal audit function, locally and internationally, and nine years in a Business Controlling function. She was transferred back from a Business Controlling function to lead the NIA team in May 2018.

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

Her team consists of six qualified auditors with various professional qualifications, namely Certified Fraud Examiner (US), Chartered Institute of Management Accountant (UK), Association of Chartered Certified Accountant (UK), associate 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 NIA’s function for the financial year ended 31 December 2019 was RM1.6 million.

RELATIONSHIP WITH EXTERNAL AUDITORS

The Audit Committee is responsible for the development, implementation and monitoring of the policies and procedures on the use of the external auditors for non-audit services, in ensuring that the external auditors 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 auditors, the Audit Committee does impose a requirement that the external auditors, rotate the audit partner responsible for the 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 independence of the external auditors.

The fees paid/payable to the external auditors, KPMG and its affiliates, in the financial year ended 2019 and 2018 were as follows:

	2019	2018
Audit and Remuneration	488	490
Tax compliance review	27	29
Non-audit services*	88	45
TOTAL	603	564

* This amount is for the review of Statement on Risk Management and Internal Control; and for the BEE 2019 by KPMG Consulting.

There is clear guideline in place for the type of non-audit services that the external auditors could provide to the Group.

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 auditors and the process they have adopted to identify financial statement risks and key areas of audit focus;
- regular communications between the external auditors 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 auditors (in the absence of management) and the Management Team (in the absence of KPMG) in order to discuss the external audit process; and
- a review of the final audit report, noting key areas of auditors' judgment and the reasoning behind the conclusions reached.

The external auditors reviewed the work of the internal auditors to obtain an understanding the Group's internal control and areas relating to the Group's financial reporting which reduce the audit procedures to be performed.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

NOMINATION AND COMPENSATION COMMITTEE REPORT

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

NCC



“The Board must remain mindful of ensuring the right mix of diversity in skills and experience.”

COMPOSITION

The Nomination and Compensation Committee during the year comprised 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.

Chairman

Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail

100%

Total Attendance 2/2

The Committee meets at least twice a year as a minimum and at other times as required. A quorum established by the presence of the Chairman and at least one member whom must be an Independent Director, has always been met for meetings of the Committee.

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. Although not a Committee member, the Chief Executive Officer is invited and has attended the meetings. The Committee may invite any employee of the Company to attend its meetings when necessary, for matters that require their input and clarification. The Committee 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.

Members

Dato' Mohd. Rafik Bin Shah
Mohamad



100%

Total Attendance 2/2

Tan Sri Datuk (Dr.) Rafiah
Binti Salim



100%

Total Attendance 2/2

Dato' Frits van Dijk



50%

Total Attendance 1/2

* absent due to
medical reasons



The Terms of Reference of the Nomination and Compensation Committee, which includes its key objectives and responsibilities is available on the Company's website at www.nestle.com.my

ROLE

The principal role of the Nomination and Compensation Committee is to review the composition of the Board, evaluate the balance of skills, knowledge, experience and diversity of the Board, and the performance and effectiveness of the Board in addition to reviewing and setting the remuneration policy for the Directors and the employees of the Group. It leads the process for the appointment of new Directors to the Board and makes the appropriate recommendations to the Board. It also oversees and reviews the succession planning process for Directors and the Nestlé Leadership Team.

No Director is involved in any decisions as to their own remuneration or re-election/retention.

THE NOMINATION AND COMPENSATION COMMITTEE AND ITS WORKS:

The Committee discharges its responsibilities through its scheduled meetings during the year in accordance with its fixed agenda which covers the matters under the purview of the Committee. The Committee met twice during the financial year. In discharging its roles and responsibilities, the Committee reviews among others, the overall size, structure, composition, competencies and skill matrix of the Board.

The Committee reviews the Diversity Policy that recognises the effectiveness of a diverse workforce, as 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.

Succession planning is also an important role for the Committee. It reviews the retirement schedule of its Directors and as part of the Board's succession planning efforts, there were extensive initiatives by the Committee in identifying potential candidates, taking into account the required skill mix, the diversity and potential needs of the Board. One of the focus is to identify potential female candidates who could add value, bring a distinctive set of skills and different perspective to the Board. The Committee also reviews the management development and succession planning for the Nestlé Leadership Team. This is to ensure that the Group is lead by capable people from diversified background and it continuously develops its talent for the success of the Group.

In line with the MCCG, the Committee facilitates a BEE on an annual basis. Periodically, the Committee will appoint an independent third party to facilitate the BEE. The Committee in 2019 had appointed KPMG Consulting to carry out the BEE. The evaluation which includes an independent assessment of the Independent Directors was done in a rigorous and objective manner through a set of questionnaires and individual interviews with all the Directors. For further details of the BEE, please refer to pages 16 to 17 of this report.

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 the remuneration package for the Group's employees on an annual basis. To ensure the competitiveness of the Groups' remuneration package, a benchmarking exercise against companies within the same industry is carried out.

The Non-Executive Directors' fees and allowances are also reviewed annually 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.

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

During the year, the Committee reviewed the terms for the renewal of the National Union of Commercial Workers Collective Agreements which was subsequently concluded by the Group.

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 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 19 February 2020 and approved by the Board on 25 February 2020.



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

CORPORATE GOVERNANCE OVERVIEW STATEMENT

NOMINATION AND COMPENSATION COMMITTEE REPORT

MEETINGS

The Committee met twice during the financial year. The following summaries the key activities of the Committee in 2019:

AREA OF FOCUS	MATTERS CONSIDERED
NOMINATION	<ul style="list-style-type: none"> Review and approve the appointment of independent third party to facilitate the 2019 BEE, assessment of Directors' independence and matters related thereto. Review the contribution, performance and the effectiveness of the Board as a whole, the Board Committees and individual Directors. Review the size structure, balance and composition of the Board and the Board Committees, the Board's diversity and the required mix of skills and core competencies. Review the independence of Independent Directors. Review the policy on Board composition and the Diversity Policy. Review the declaration of directorship and time commitment of each Director. Review the trainings attended by each Director, assess the training needs of the Directors and approve the 2019 Training Programme for the Board. Review the retirement schedule and succession plans for the Non-Executive Directors. Recommend to the Board on the re-election and retention of Directors. Review the appointment of the Alternate Directors. Facilitate the search for potential candidates to the Board. Review the cooling off period for Directors. Review the succession plans and management development for the Nestlé Leadership Team.
COMPENSATION	<ul style="list-style-type: none"> Review the implementation of the approved Remuneration Direction for 2019. Review the remuneration of the Executive Directors. Review the remuneration of the Nestlé Leadership Team. Review the proposed Remuneration Direction Package 2020. Review the proposed fees and benefits to be paid to Non-Executive Directors. Review the Remuneration Policy. Review and approve the National Union of Commercial Workers Collective Agreement charter mandate.
NOMINATION & COMPENSATION	<ul style="list-style-type: none"> Review the MCCG gap analysis and evaluate the next step therefrom. Review the Terms of Reference of the Nomination and Compensation Committee. Review the Nomination and Compensation Committee Report for disclosure in the Annual Report 2018. Review the Nomination and Compensation Committee Agenda for 2020. Review the effectiveness of the Nomination and Compensation Committee meetings.

PRIORITIES FOR 2020

IN THE COMING YEAR, THE COMMITTEE WILL FOCUS ON:

- Finalising the selection and to propose to the Board the appointment of new Independent Non-Executive Directors.
- Identifying potential successor to the Audit Committee Chairman who will retire in 2021.
- Reviewing the remuneration of Non-Executive Directors.

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 under the responsibility of the Board and Management. 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 Management 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, complex and sophisticated 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 management and internal processes, which supports fulfilment of our strategic priorities, thereby delivering value for all stakeholders. The Nestlé risk and opportunities strategy was part of the assessment requirement for ISO 9001:2015 certification.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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 operations and processes:

- (i) periodic reviews of the principal business risks, and control measures to mitigate or reduce such risks;
- (ii) periodic reviews of the strengths and weaknesses of the overall internal controls system and action plans to address the risk of weaknesses or to improve the assessment process;
- (iii) periodic reviews of the business internal 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

- (iv) 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 updates the Board on 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.

(Please also see "Audit Committee Report" on pages 26 to 29 of this report regarding the Committee's detailed review work, including the forms of "assurance" received from management, external auditors, and internal auditors).

Our Board's responsibilities include:



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 Internal Audit and prevailing practices of related companies, the Board and Management Team have put in place risk management guidelines, control measures and processes throughout the Group which are consistent with global risk management framework.

The Group system of risk management and internal control are designed to manage and mitigate the risks which may hinder the achievement of the Company's strategy.

With this framework, the responsibility for day to day risk management resides with the Management of each function/ business unit where they are the risk owners and are accountable for managing the risks identified and assessed. In managing the risks of Group, the Risk Management Department collaborates with the Management in reviewing and ensuring that there is on-going monitoring of risks, the adequacy and effectiveness of its related controls, and action plans are developed and implemented to manage these risks at the acceptable level by the Management.

Enterprise Risk Management (“ERM”) Process is a process on how the Group facilitate and approach the risk identification, assessment, reporting, review mitigation control and as well as measuring the action plan. In addition, the Group monitors the Key Risk Indicator (“KRI”) each quarter and reports to the management accordingly.

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 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 Nestlé 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.

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

A

the inherent risk of the business units/
departments; and

B

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

On a quarterly basis, the results of internal audits are reported to the Audit Committee and the report of 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 summaries the audit issues and its priorities have been developed as a template and accessible via web based to monitor and follow up audit recommendations. For the financial year ended 31 December 2019, the Nestlé Internal Audit conducted eight (8) internal audits across corporate functions, warehouses, business units and

factories. 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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

In addition to Audit Committee, the annual internal audit plan and results (where applicable) of the Nestlé Internal Audit are reported to Nestlé S.A. Management and the Audit Committee of Nestlé S.A. For the financial year ended 31 December 2019, based on the approved annual audit plan and the risk assessment, two (2) audits were performed on the Group by 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 key risks and mitigation are described as below:

RISK	MITIGATE ACTIONS
Food Safety and Quality	
Quality and Food Safety Assurance is an utmost important principle for us as this risk may cause serious impact to the Group.	<p>All manufacturing sites maintain Food Safety System Certification (FSSC 22000) to uphold the food safety of our products.</p> <p>In order to achieve flexibility in sourcing while ensuring high quality raw materials, Nestlé is committed to have all its suppliers certified against one of the Global Food Safety Initiative (GFSI) recognised certification programmes.</p>
Health Related Concerns	
<p>With the increase of consumer's awareness and concern about their health and way of life, this has caused the rise of health activists who are critical of the perceived inadequacy of the nutritional values of our products.</p> <p>This may lead to potential negative consumer perception on our products in relation to their health.</p>	<p>With the Group's industry-leading research and development, the Group continuously strive to innovate and improve product development to produce high-quality and nutritious offerings.</p> <p>The Group has time-bound plans to improve our nutritional profiling with significant progress on a year-to-year basis.</p>
Environmental Concerns	
Increasing concerns on the Group's environmental footprint, including impact on climate change, plastic pollution, water usage, etc.	<p>We strive for zero environmental impact in our operations by 2030.</p> <p>We are constantly working towards improving our water management (water efficiency and reuse), regulatory compliance, protecting natural capital and reducing the impact of our products by focusing on waste management and packaging.</p>

Commodity and Material Prices

Exposure on commodities and price will have significant impact to cost of our products.

The Group has process policies, procedures and governance to ensure active price-risk management on key commodities and business continuity plans.

To ensure minimal interruption of the supply, we also source from multiple suppliers which are approved based on our global and local standards.

Foreign Currency Exchange

Exposure on forex risk in capital markets will have significant impact to cost of our products.

The Group continue with strong governance to actively manage exposures and long-term asset and liability outlook.

Cybersecurity Attacks

The threat landscape has evolved significantly over the past years in line with the rapid evolution of technology.

The Group is ISO 27001 certified. Security controls are in place to minimise cybersecurity risks.

The Group strives to build a strong security culture through awareness programmes including IT Security trainings and communication.

Fraud and Corruption

Fraud and corruption may result in legal, financial and reputational repercussions.

To minimise risk, the Group creates awareness on the impact of fraud and corruption, and the Group's stand against fraud and corruption through various trainings and awareness activities. In addition, the Group has a whistleblowing hotline in place for non-compliance reporting.

The Group will also strengthen its processes to ensure it has Adequate Procedures in place in accordance with the Malaysian Anti-Corruption Commission Act 2009.

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

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's 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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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.

The Internal Control Self-Assessment (ICSAT) has been discontinued in 2019. This has now been replaced by End to End (“E2E”) Risk and Control matrices as part of Nestlé Business Excellence Optimized E2E initiative, and the use of data analytics to track risks at Group level.

The change permits simplification and limits overlap and duplication of control initiatives, whilst enabling a more meaningful Internal Control assessment. Risk and Control matrices (“R&C”) currently provide a more clarity in gauging controls, particularly to understand where the control responsibility lies, with the required level of detail. The R&C matrices also allow management to better encompass new solutions that are introduced into business processes. The result is an aligned view and single control repository for Markets, Nestlé Business System (“NBS”), Audit and the Centre.

For the financial year ended 31 December 2019, self assessment of Internal Control procedures have been carried out and E2E R&C self-assessment has been performed based on the mandatory defined scope by Global.

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 system of the Group as described on page 4 of this report. This committee ensures an investigation is conducted, 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.

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 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 for inclusion in the annual report of the Group for the year ended 31 December 2019, 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.

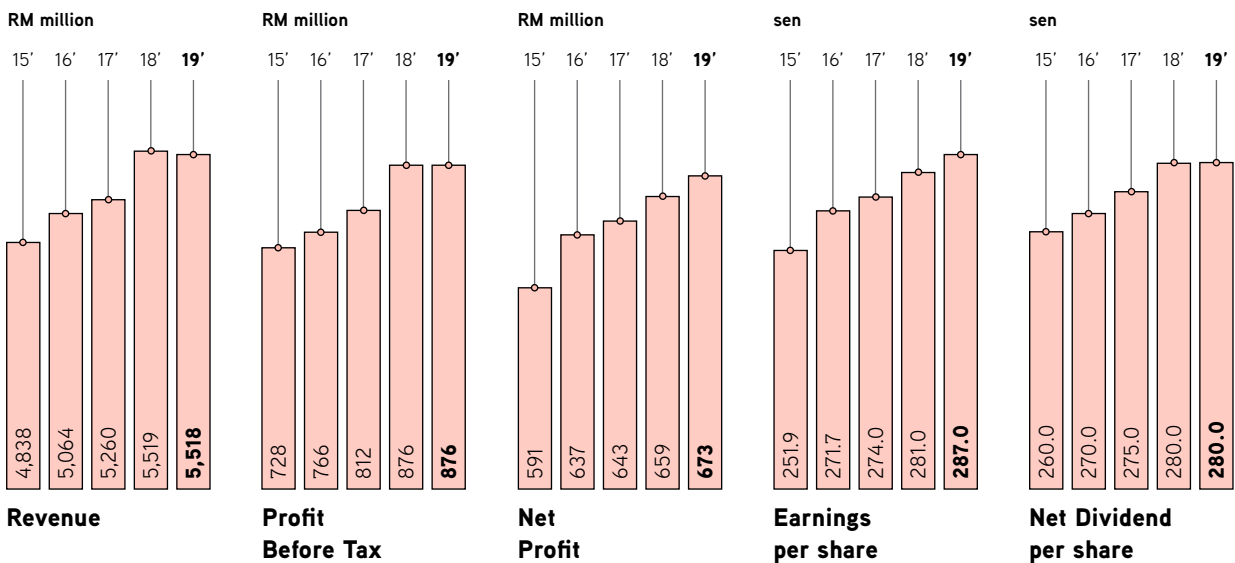
AAPG 3 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board and management thereon. The external 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 25 February 2020.

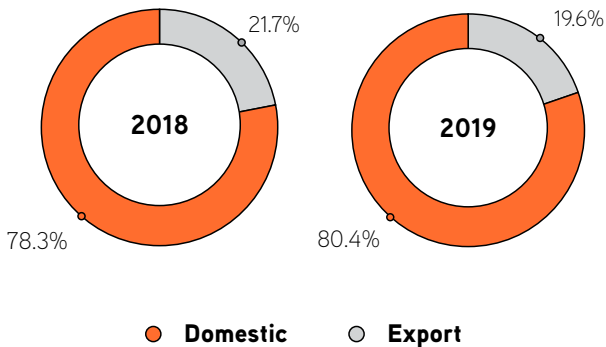
KEY HIGHLIGHTS

FINANCIAL PERFORMANCE

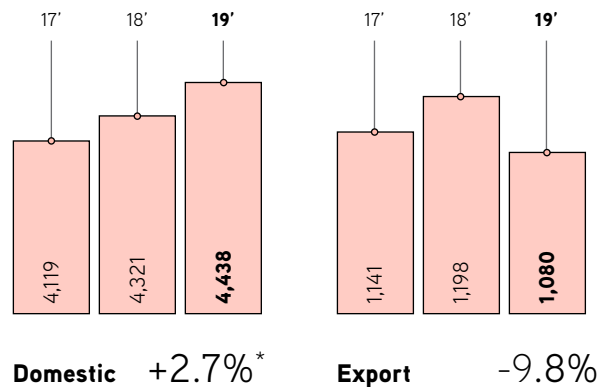
- Delivered revenue of RM5.5 billion, on par with the previous year.
- Adjusted for the Chilled Dairy business divestment, revenue growth was **1.6%**, driven by strong growth in domestic sales at **4.7%**.
- The Group recorded a higher Profit After Tax of RM673 million, up by 2.1%, while Profit Before Tax held firm at RM876 million, in spite of higher commodity prices and unfavourable exchange rates, mitigated through continued focus on driving efficiencies and savings to protect the financial performance.
- Proposed final dividend of RM1.40 per share, bringing total dividends for the year to RM2.80 per share.



TOTAL SALES (%)



GROWTH (RM million)



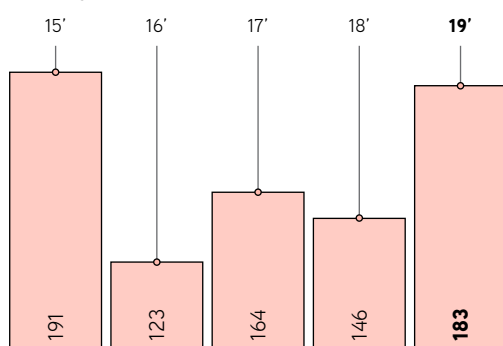
* +4.7% adjusted for Chilled Dairy business divestment.

FINANCIAL CALENDAR

Dividends				
	First Interim	Second Interim	Final	Annual General Meeting
Announced	27 August 2019	12 November 2019	25 February 2020	
Record date	17 September 2019	29 November 2019	15 April 2020	30 April 2020
Paid	10 October 2019	19 December 2019	21 May 2020	

CAPITAL EXPENDITURE

RM million



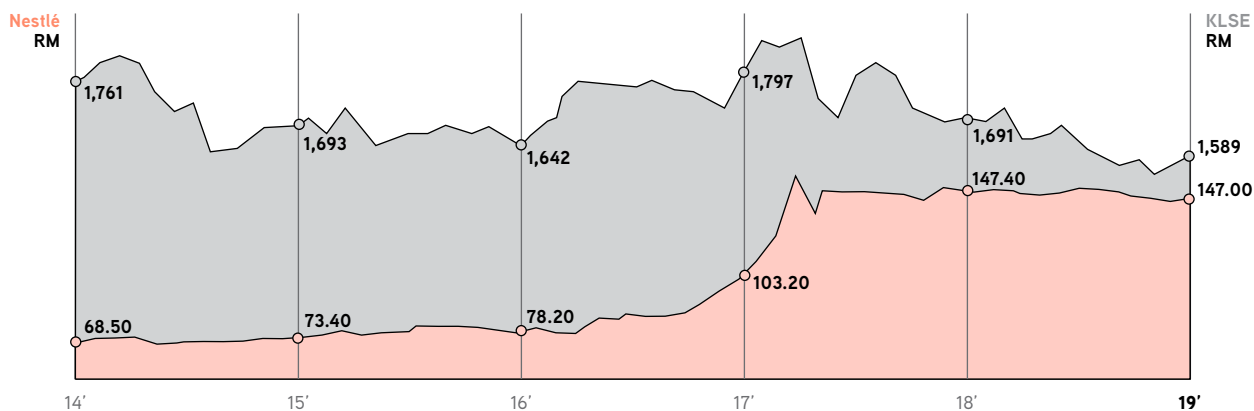
Major projects in 2019:

- Chembong - Expansion of MILO manufacturing line
- Chembong Ice Cream - New Oreo Stick and Kit Kat Stick manufacturing line
- Batu Tiga - Automation of packing system for MAGGI Hot Cup
- Batu Tiga - Upgrading raw materials processing
- Trade Asset - Replacement of Vending machines & Ice cream freezers

SHARE PERFORMANCE

	Calendar Year				
	2019	2018	2017	2016	2015
During the year					
Highest - RM	150.40	157.40	103.20	81.80	75.50
Lowest - RM	143.30	113.30	74.12	73.00	68.50
Last Trading Day - RM	147.00	147.40	103.20	78.20	73.40

SHARE PRICES (BURSA MALAYSIA) - CLOSE



GROUP FINANCIAL HIGHLIGHTS

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		2019	2018	+ / (-)
Revenue	(RM'000)	5,518,076	5,519,045	0.0%
Profits / Cash Flow				
Profit before tax	(RM'000)	875,725	875,890	0.0%
% of revenue		15.9%	15.9%	
Profit after tax and minority interest	(RM'000)	672,913	658,882	2.1%
% of revenue		12.2%	11.9%	
Dividends paid & proposed (net)	(RM'000)	656,600	656,600	0.0%
Depreciation, amortisation and impairment	(RM'000)	177,300	165,354	
Cash flow (net profit + depreciation + amortisation + impairment)	(RM'000)	850,213	824,236	
Capital expenditure	(RM'000)	183,253	145,671	
Shareholders' funds	(RM'000)	664,924	654,333	
Personnel	(no.)	4,686	5,267	
Factories	(no.)	6	7	
Per Share				
Market price ¹	(RM)	147.00	147.40	
Earnings ²	(sen)	286.96	280.97	
Price earnings ratio		51.23	52.46	
Dividend (net)	(sen)	280.00	280.00	
Dividend yield	(%)	1.9	1.9	
Dividend cover ²	(no.)	1.0	1.0	
Shareholders' funds	(RM)	2.84	2.79	
Net tangible assets ³	(RM)	2.55	2.50	

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 2019

	2019 RM'000	2018 RM'000	2017 RM'000	2016 RM'000	2015 RM'000	
Revenue	5,518,076	5,519,045	5,260,490	5,063,506	4,837,957	
Profits / Cash Flow						
Profit before tax	875,725	875,890	812,216	766,494	727,711	
% of revenue	15.9%	15.9%	15.4%	15.1%	15.0%	
Profit after tax and minority interest	672,913	658,882	642,550	637,127	590,733	
% of revenue	12.2%	11.9%	12.2%	12.6%	12.2%	
Dividends paid & proposed (net)	656,600	656,600	644,875	633,150	609,700	
Depreciation, amortisation and impairment	177,300	165,354	158,104	138,040	125,845	
Cash flow (net profit + depreciation + amortisation + impairment)	850,213	824,236	800,654	775,167	716,578	
% of revenue	15.4%	14.9%	15.2%	15.3%	14.8%	
Capital expenditure	183,253	145,671	164,455	123,136	191,184	
Employment of Assets						
Fixed assets (net)	1,532,045	1,507,131	1,432,211	1,353,050	1,369,874	
Associated company	5,367	5,084	4,709	4,224	4,114	
Intangible assets	65,795	67,546	61,986	62,400	62,814	
Deferred tax assets	34,511	30,572	20,523	20,155	11,068	
Receivables, deposits & prepayments	15,807	21,533	24,283	24,745	25,048	
Net current liabilities ¹	(581,737)	(566,663)	(577,999)	(546,807)	(509,215)	
Total	1,071,788	1,065,203	965,713	917,767	963,703	
Financed by						
Share capital ²	267,500	267,500	267,500	234,500	234,500	
Reserves	397,424	386,833	368,394	412,721	474,096	
Total shareholders' funds	664,924	654,333	635,894	647,221	708,596	
Deferred tax liabilities	138,597	135,390	120,987	91,260	77,539	
Employee benefits	91,444	95,282	89,749	86,140	81,117	
Borrowings and financial liabilities	176,823	180,198	119,083	93,146	96,451	
Total	1,071,788	1,065,203	965,713	917,767	963,703	
Per Share						
Market price ³	(RM)	147.00	147.40	103.20	78.20	73.40
Earnings ⁴	(sen)	286.96	280.97	274.01	271.70	251.91
Price earnings ratio		51.23	52.46	37.66	28.78	29.14
Dividend (net)	(sen)	280.00	280.00	275.00	270.00	260.00
Dividend yield	(%)	1.9	1.9	2.7	3.5	3.5
Dividend cover ⁴	(no.)	1.0	1.0	1.0	1.0	1.0
Shareholders' funds	(RM)	2.84	2.79	2.71	2.76	3.02
Net tangible assets ⁵	(RM)	2.55	2.50	2.45	2.49	2.75
Personnel	(no.)	4,686	5,267	5,338	5,505	5,578
Factories	(no.)	6	7	7	8	8

Notes:

¹ The Group has adequate credit facilities to fund the net current liabilities.

² 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 in 2017.

³ The market price represents last done price of the shares quoted on the last trading day of December.

⁴ Earnings per share and dividend cover are based on profit after tax.

⁵ Net tangible assets consists of issued share capital plus reserves less intangible assets.

DIRECTORS' REPORT

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FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019.

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	672,913	660,253

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 140 sen per ordinary share, totalling RM328,300,000 in respect of the financial year ended 31 December 2018 on 30 May 2019;
- ii) a first interim dividend of 70 sen per ordinary share, totalling RM164,150,000 in respect of the financial year ended 31 December 2019 on 10 October 2019; 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 2019 on 19 December 2019.

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 2019.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

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	
Juan Jose Aranols Campillo	Alessandro Monica (Appointed on 26 February 2019)
Craig Grant Connolly (Appointed on 1 February 2019)	Shahzad Umar (Appointed on 26 February 2019)
Martin Peter Kruegel (Resigned on 31 January 2019)	

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 of CHF0.1 each			
	At 1.1.2019/ date of appointment	Acquired	Sold	At 31.12.2019
Interests in Nestlé S.A., the holding company				
Dato' Frits van Dijk	150,000	-	88,000	62,000
Juan Jose Aranols Campillo	14,037	2,673	6,000	10,710
Craig Grant Connolly	-	1,313	1,313	-

None of the other Directors holding office at 31 December 2019 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

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 premium paid for the Directors' and Officers' Liability Insurance by the Group was RM17,496.

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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 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.

AUDITORS

The auditors, KPMG PLT, retire and are not seeking re-appointment.

The auditors' remuneration is disclosed in Note 17 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

25 February 2020

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Assets					
Property, plant and equipment	3	1,277,861	1,245,564	-	-
Right-of-use assets	4	254,184	261,567	-	-
Intangible assets	5	65,795	67,546	-	-
Investments in subsidiaries	6	-	-	188,022	188,022
Investment in an associate	7	5,367	5,084	3,000	3,000
Deferred tax assets	8	34,511	30,572	-	-
Trade and other receivables	9	15,807	21,533	-	-
Total non-current assets		1,653,525	1,631,866	191,022	191,022
Trade and other receivables	9	508,097	605,414	408,111	404,244
Inventories	10	551,827	530,378	-	-
Current tax assets		2,690	163	-	-
Cash and cash equivalents	11	10,399	7,011	-	-
		1,073,013	1,142,966	408,111	404,244
Assets classified as held for sale	12	-	72,450	-	-
Total current assets		1,073,013	1,215,416	408,111	404,244
Total assets		2,726,538	2,847,282	599,133	595,266
Equity					
Share capital		267,500	267,500	267,500	267,500
Reserves		(931)	2,498	-	-
Retained earnings		398,355	384,335	329,647	325,994
Total equity attributable to owners of the Company	13	664,924	654,333	597,147	593,494
Liabilities					
Lease liabilities		176,823	180,198	-	-
Employee benefits	15	91,444	95,282	-	-
Deferred tax liabilities	8	138,597	135,390	-	-
Total non-current liabilities		406,864	410,870	-	-
Loans and borrowings	14	257,431	180,304	-	-
Lease liabilities		28,753	26,778	-	-
Trade and other payables	16	1,321,407	1,527,276	1,858	1,691
Current tax liabilities		47,159	47,721	128	81
Total current liabilities		1,654,750	1,782,079	1,986	1,772
Total liabilities		2,061,614	2,192,949	1,986	1,772
Total equity and liabilities		2,726,538	2,847,282	599,133	595,266

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Revenue		5,518,076	5,519,045	662,050	657,020
Cost of sales		(3,444,561)	(3,381,380)	-	-
Gross profit		2,073,515	2,137,665	662,050	657,020
Other income		20,960	16,819	-	-
Selling and distribution expenses		(977,094)	(1,023,305)	-	-
Administrative expenses		(192,373)	(177,990)	(3,495)	(3,432)
Other expenses		(13,015)	(38,593)	(14)	(142)
Results from operating activities	17	911,993	914,596	658,541	653,446
Finance income		3,662	3,622	2,465	2,568
Finance costs		(40,663)	(43,123)	-	-
Net finance (costs)/income		(37,001)	(39,501)	2,465	2,568
Share of profit of an equity-accounted associate, net of tax		733	795	-	-
Profit before tax		875,725	875,890	661,006	656,014
Income tax expense	18	(202,812)	(217,008)	(753)	(571)
Profit for the year		672,913	658,882	660,253	655,443
Other comprehensive (expense)/ income, net of tax					
Item that is or may be reclassified subsequently to profit or loss					
Cash flow hedge		(3,429)	11,670	-	-
Item that will not be reclassified subsequently to profit or loss					
Remeasurement of defined benefit liability		(2,293)	(283)	-	-
Other comprehensive (expense)/ income for the year, net of tax	19	(5,722)	11,387	-	-
Total comprehensive income for the year		667,191	670,269	660,253	655,443
Basic and diluted earnings per ordinary share (sen)	20	287	281		

The notes on pages 56 to 122 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

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		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	19	-	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	21	-	-	(644,875)	(644,875)
Total transactions with owners of the Company		-	-	(644,875)	(644,875)
At 31 December 2018/ 1 January 2019		267,500	2,498	384,335	654,333
Cash flow hedge		-	(3,429)	-	(3,429)
Remeasurement of defined benefit liability		-	-	(2,293)	(2,293)
Other comprehensive expense for the year	19	-	(3,429)	(2,293)	(5,722)
Profit for the year		-	-	672,913	672,913
Total comprehensive (expense)/ income for the year		-	(3,429)	670,620	667,191
Dividends to owners of the Company	21	-	-	(656,600)	(656,600)
Total transactions with owners of the Company		-	-	(656,600)	(656,600)
At 31 December 2019		267,500	(931)	398,355	664,924

Note 13

Note 13

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

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Company	Note	← Attributable to owners of the Company →		
		Non-distributable	Distributable	Total equity
		Share capital RM'000	Retained earnings RM'000	RM'000
At 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	21	-	(644,875)	(644,875)
Total transactions with owners of the Company		-	(644,875)	(644,875)
At 31 December 2018/1 January 2019		267,500	325,994	593,494
Profit and total comprehensive income for the year		-	660,253	660,253
Dividends to owners of the Company	21	-	(656,600)	(656,600)
Total transactions with owners of the Company		-	(656,600)	(656,600)
At 31 December 2019		267,500	329,647	597,147

Note 13

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash flows from operating activities					
Profit before tax		875,725	875,890	661,006	656,014
<i>Adjustments for:</i>					
Amortisation of intangible assets	5	1,571	414	-	-
Depreciation of property, plant and equipment	3	133,506	135,328	-	-
Depreciation of right-of-use assets	4	32,411	29,612	-	-
Dividend income		-	-	(662,050)	(657,020)
Expenses related to defined benefit plans	15	5,897	5,161	-	-
Finance costs		40,663	43,123	-	-
Finance income		(3,662)	(3,622)	(2,465)	(2,568)
(Gain)/Loss on disposal of property, plant and equipment	17	(852)	195	-	-
Gain on disposal of leasehold land	17	-	(7,410)	-	-
Impairment loss on property, plant and equipment	3	9,812	-	-	-
Intangible assets written off	5	180	-	-	-
Net gain on divestment	28	(20,960)	(9,417)	-	-
Net unrealised foreign exchange differences	17	3,329	(5,866)	-	-
Property, plant and equipment written off	17	5,704	1,534	-	-
Share-based payments	17	10,919	5,344	-	-
Share of profit of an equity-accounted associate, net of tax	7	(733)	(795)	-	-
Operating profit/(loss) before changes in working capital					
		1,093,510	1,069,491	(3,509)	(3,574)
Change in inventories		(26,802)	(63,994)	-	-
Change in trade and other payables		(228,884)	229,300	167	266
Change in trade and other receivables		106,152	(14,031)	1,133	835
Cash generated from/(used in) operations					
		943,976	1,220,766	(2,209)	(2,473)
Dividends received from subsidiaries		-	-	656,600	644,875
Retirement benefits paid	15	(12,752)	-	-	-
Income tax paid		(204,926)	(173,872)	(706)	(515)
Net cash from operating activities					
		726,298	1,046,894	653,685	641,887

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash flows from investing activities					
Acquisition of intangible assets	5	-	(5,974)	-	-
Acquisition of property, plant and equipment	3	(183,253)	(145,671)	-	-
Dividends received from associate	7	450	420	450	420
Finance income received		3,662	3,622	2,465	2,568
Net proceeds from divestment	28	99,005	10,480	-	-
Proceeds from disposal of leasehold land		-	12,827	-	-
Proceeds from disposal of property, plant and equipment		2,359	549	-	-
Net cash (used in)/from investing activities		(77,777)	(123,747)	2,915	2,988
Cash flows from financing activities					
Dividends paid to owners of the Company	21	(656,600)	(644,875)	(656,600)	(644,875)
Finance costs paid		(40,663)	(43,123)	-	-
Payment of lease liabilities		(26,243)	(31,360)	-	-
Proceeds from/(Repayment of) borrowings		100,000	(243,922)	-	-
Net cash used in financing activities		(623,506)	(963,280)	(656,600)	(644,875)
Net increase/(decrease) in cash and cash equivalents					
		25,015	(40,133)	-	-
Cash and cash equivalents at 1 January		(57,443)	(17,310)	-	-
Cash and cash equivalents at 31 December		(32,428)	(57,443)	-	-

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

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	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash and bank balances	11	10,399	7,011	-	-
Bank overdraft	14	(42,827)	(64,454)	-	-
		(32,428)	(57,443)	-	-

Cash outflows for leases as a lessee

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Included in net cash from operating activities:					
Payment relating to short-term leases	17	42,065	42,376	-	-
Finance cost of lease liabilities	17	7,949	5,185	-	-
Included in net cash from financing activities:					
Payment of lease liabilities		26,243	31,360	-	-
Total cash outflows for leases		76,257	78,921	-	-

Reconciliation of movements of liabilities to cash flows arising from financing activities

Group	At 1 January 2018 RM'000	Net changes from financing cash flows RM'000	Foreign exchange movement RM'000	Acquisition of new lease (Note 4) RM'000	At 31 December 2018 RM'000
Loan from a related company	359,970	(243,922)	(198)	-	115,850
Lease liabilities	63,871	(31,360)	-	174,465	206,976
Total liabilities from financing activities	423,841	(275,282)	(198)	174,465	322,826

Group	At 1 January 2019 RM'000	Net changes from financing cash flows RM'000	Foreign exchange movement RM'000	Acquisition and modification of lease (Note 4) RM'000	At 31 December 2019 RM'000
Loan from a related company	115,850	-	(1,246)	-	114,604
Revolving credit - unsecured	-	100,000	-	-	100,000
Lease liabilities	206,976	(26,243)	-	24,843	205,576
Total liabilities from financing activities	322,826	73,757	(1,246)	24,843	420,180

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 2019 comprise the Company and its subsidiaries (together referred to as the “Group” and individually referred to as “Group entities”) and the Group’s interest in an associate. The financial statements of the Company as at and for the financial year ended 31 December 2019 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 25 February 2020.

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 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*
- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

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*

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

The Group and the Company plan to apply the abovementioned accounting standards, interpretations and amendments from the annual period beginning on 1 January 2020 for those accounting standards, interpretations and 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 initial application of the accounting standards, interpretations or amendments are not expected to have any material financial impacts to the current period and prior period financial statements of the Group and the Company.

(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.

(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 4 – Extension options and incremental borrowing rate in relation to leases
- Note 5 – Measurement of the recoverable amounts of cash-generating units
- Note 23.4 – Measurement of expected credit loss ("ECL")

NOTES TO THE FINANCIAL STATEMENTS

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.

(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.

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 investment 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(iii) Associates (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency (continued)

Foreign currency transactions (continued)

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.

(c) Financial instruments

(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.

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.

(ii) Financial instrument categories and subsequent measurement

Financial assets

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

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

Financial assets (continued)

(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 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)).

Financial liabilities

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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

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

Financial liabilities (continued)

(a) Fair value through profit or loss (continued)

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(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.

(a) Fair value hedge

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.

(b) Cash flow hedge

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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(iii) Hedge accounting (continued)

(b) Cash flow hedge (continued)

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.

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(iv) Derecognition (continued)

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.

(d) Property, plant and equipment

(i) Recognition and measurement

Capital work-in-progress is stated at cost. All other property, plant and equipment are measured 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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leases

(i) Definition of a lease

A contract is, or contains, a lease if the contract conveys a 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:

- 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;
- the customer has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- the customer has the right to direct the use of the asset. The customer 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 the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

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

(ii) Recognition and initial measurement

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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leases (continued)

(ii) Recognition and initial measurement (continued)

As a lessee (continued)

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 respective Group entities' 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 the following:

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

The Group excludes variable lease payments that linked to future performance or usage of the underlying asset from the lease liability. Instead, these payments are recognised in profit or loss in the period in which the performance or use occurs.

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.

(iii) Subsequent measurement

As a lessee

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 depreciation 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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leases (continued)

(iii) Subsequent measurement (continued)

As a lessee (continued)

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 measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments, or 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.

When the lease liability is remeasured, 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

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.

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 fair 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

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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment (continued)

(i) Financial assets (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.

(ii) Other assets

The carrying amounts of other assets (except for inventories, deferred tax assets and non-current assets 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 and intangible assets, the recoverable amount is estimated each period at the same time.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment (continued)

(ii) Other assets (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Employee benefits (continued)

(iii) Defined benefit plans (continued)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Revenue and other income

(i) Revenue from contracts with customers

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.

(iii) Finance income

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

General and specific 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Income tax (continued)

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.

(r) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised on the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) 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	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 2018	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/ 1 January 2019	585,290	2,165,130	17,281	110,495	39,810	2,918,006
Additions	14,003	129,645	3,630	14,094	21,881	183,253
Disposals	(6)	(17,383)	(2,724)	(2,648)	-	(22,761)
Written off	(2,445)	(68,651)	-	(3,214)	-	(74,310)
Transfer in/(out)	2,367	8,103	-	1,222	(11,692)	-
Transfer from assets classified as held for sale	-	1,017	-	115	-	1,132
At 31 December 2019	599,209	2,217,861	18,187	120,064	49,999	3,005,320

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	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						
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

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	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 2019						
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
Depreciation for the year	15,719	105,016	1,837	10,934	-	133,506
Impairment loss for the year	1,771	7,623	-	418	-	9,812
Disposals	(6)	(16,578)	(2,037)	(2,633)	-	(21,254)
Written off	(510)	(65,434)	-	(2,662)	-	(68,606)
Transfer from assets classified as held for sale	-	1,521	-	38	-	1,559
At 31 December 2019						
Accumulated depreciation	199,195	1,392,222	10,953	87,519	-	1,689,889
Accumulated impairment loss	8,137	28,777	-	656	-	37,570
	207,332	1,420,999	10,953	88,175	-	1,727,459
Carrying amounts						
At 1 January 2018	428,209	796,900	6,263	24,218	39,874	1,295,464
At 31 December 2018/ 1 January 2019	394,932	776,279	6,128	28,415	39,810	1,245,564
At 31 December 2019	391,877	796,862	7,234	31,889	49,999	1,277,861

Impairment loss

During the year, the Group has recognised an impairment loss of RM9,812,000 (2018: Nil) in respect of plant and equipment based on the recoverable amount of the assets.

4. RIGHT-OF-USE ASSETS

Group	Leasehold land RM'000	Buildings RM'000	Tools and equipment RM'000	Total RM'000
Cost				
At 1 January 2018	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 2018/1 January 2019	69,958	271,935	27,172	369,065
Additions	-	294	9,312	9,606
Expiration of lease contracts	-	(38)	-	(38)
Modification of lease contracts	-	15,237	-	15,237
At 31 December 2019	69,958	287,428	36,484	393,870
Depreciation				
At 1 January 2018	19,329	271,746	6,633	297,708
Depreciation 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 2018/1 January 2019	13,450	83,547	10,501	107,498
Depreciation for the year	1,333	25,896	5,182	32,411
Expiration of lease contracts	-	(38)	-	(38)
Transfer to assets classified as held for sale	(185)	-	-	(185)
At 31 December 2019	14,598	109,405	15,683	139,686
Carrying amounts				
At 1 January 2018	78,188	38,020	20,539	136,747
At 31 December 2018/1 January 2019	56,508	188,388	16,671	261,567
At 31 December 2019	55,360	178,023	20,801	254,184

The Group leases its office space, distribution centre and retail stores. The leases of office space and distribution centre typically run for a period of ten years and retail stores for three to five years. The leases 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

4. RIGHT-OF-USE ASSETS (CONTINUED)

4.1 Extension options

Some leases of office space and distribution centre contain extension options exercisable by the Group up to three years before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

4.2 Significant judgements and assumptions in relation to leases

The Group assesses at lease commencement by applying significant judgement whether it is reasonably certain to exercise the extension options. Group entities consider all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

The Group also applied judgement and assumptions in determining the incremental borrowing rate of the respective leases. Group entities first determine the closest available borrowing rates before using significant judgement to determine the adjustments required to reflect the term, security, value or economic environment of the respective leases.

5. INTANGIBLE ASSETS

Group	Goodwill RM'000	Development cost RM'000	Total RM'000
Cost			
At 1 January 2018	61,024	2,065	63,089
Additions	-	5,974	5,974
At 31 December 2018/1 January 2019	61,024	8,039	69,063
Write off	-	(180)	(180)
At 31 December 2019	61,024	7,859	68,883
Amortisation			
At 1 January 2018	-	1,103	1,103
Amortisation for the year	-	414	414
At 31 December 2018/1 January 2019	-	1,517	1,517
Amortisation for the year	-	1,571	1,571
At 31 December 2019	-	3,088	3,088
Carrying amounts			
At 1 January 2018	61,024	962	61,986
At 31 December 2018/1 January 2019	61,024	6,522	67,546
At 31 December 2019	61,024	4,771	65,795

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 5.9% to 8.2% per annum (2018: 5.8% to 6.8% 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 7.4% (2018: 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	
	2019 RM'000	2018 RM'000
At cost		
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	
			2019 %	2018 %
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, 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, 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

* Struck off from the register of Companies Commission of Malaysia under Section 551 of the Companies Act 2016.

7. INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
At cost				
Unquoted shares	3,000	3,000	3,000	3,000
Share of post-acquisition reserves	2,367	2,084	-	-
	5,367	5,084	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	
			2019 %	2018 %
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	2019 RM'000	2018 RM'000
Summarised financial information		
As at 31 December		
Non-current assets	31,969	33,241
Current assets	39,464	27,515
Non-current liabilities	(2,792)	-
Current liabilities	(41,817)	(35,338)
Net assets	26,824	25,418
Year ended 31 December		
Profit/Total comprehensive income for the year	3,663	3,976
Included in the total comprehensive income is:		
Revenue	222,757	229,658
Group's share of results for the year ended 31 December		
Group's share of profit/total comprehensive income	733	795
Other information		
Dividends received by the Group	450	420

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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Property, plant and equipment	-	-	(153,450)	(152,308)	(153,450)	(152,308)
Right-of-use assets	-	-	(47,717)	(49,213)	(47,717)	(49,213)
Lease liabilities	49,341	49,674	-	-	49,341	49,674
Employee benefit plans	24,588	23,864	-	-	24,588	23,864
Provisions	22,858	23,854	-	-	22,858	23,854
Hedging reserve	294	-	-	(689)	294	(689)
Tax assets/(liabilities)	97,081	97,392	(201,167)	(202,210)	(104,086)	(104,818)
Set off of tax	(62,570)	(66,820)	62,570	66,820	-	-
Net tax assets/(liabilities)	34,511	30,572	(138,597)	(135,390)	(104,086)	(104,818)

Movement in temporary differences during the year

Group	Recognised in profit or loss		Recognised in other comprehensive income		Recognised in profit or loss		Recognised in other comprehensive income	
	At 1.1.2018 RM'000	(Note 18) RM'000	(Note 19) RM'000	At 31.12.2018/ RM'000	(Note 18) RM'000	(Note 19) RM'000	At 31.12.2019 RM'000	
Property, plant and equipment	(142,164)	(10,144)	-	(152,308)	(1,142)	-	(153,450)	
Right-of-use assets	(8,064)	(41,149)	-	(49,213)	1,496	-	(47,717)	
Lease liabilities	9,342	40,332	-	49,674	(333)	-	49,341	
Employee benefit plans	23,775	-	89	23,864	-	724	24,588	
Provisions	15,946	7,908	-	23,854	(996)	-	22,858	
Hedging reserve	2,897	-	(3,586)	(689)	-	983	294	
	(98,268)	(3,053)	(3,497)	(104,818)	(975)	1,707	(104,086)	

9. TRADE AND OTHER RECEIVABLES

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Non-current					
Loans to employees		15,807	21,533	-	-
Current					
Trade					
Trade receivables		205,919	253,957	-	-
Less: Impairment loss		(32,215)	(35,599)	-	-
		173,704	218,358	-	-
Amounts due from related companies	9.1	188,925	202,612	-	-
Amount due from an associate	9.1	952	2	-	-
Designated as hedging instruments					
- Commodity futures		551	179	-	-
- Forward exchange contracts		5,970	7,779	-	-
		370,102	428,930	-	-
Non-trade					
Amounts due from subsidiaries	9.2	-	-	408,110	404,233
Amounts due from related companies	9.1	86,129	79,167	-	-
Other receivables, deposits and prepayments	9.3	51,866	97,317	1	11
		137,995	176,484	408,111	404,244
		508,097	605,414	408,111	404,244
		523,904	626,947	408,111	404,244

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 3.15% to 4.91% (2018: 3.23% to 4.91%) 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 RM74,810,000 (2018: RM75,933,000) which is subject to interest at 3.14% to 4.91% (2018: 3.13% to 3.38%) per annum.

9.3 Other receivables, deposits and prepayments

Included in other receivables, deposits and prepayments of the Group are loans to employees of RM10,218,000 (2018: RM12,024,000) which are unsecured and interest free and down payment to vendors of RM11,677,000 (2018: RM14,066,000).

NOTES TO THE FINANCIAL STATEMENTS

10. INVENTORIES

	Group	
	2019 RM'000	2018 RM'000
Raw and packaging materials	248,762	204,214
Work-in-progress	37,219	32,875
Finished goods	233,456	262,218
Spare parts	32,390	31,071
	551,827	530,378
Recognised in profit or loss:		
Inventories recognised as cost of sales	3,067,195	3,022,148

11. CASH AND CASH EQUIVALENTS

	Group	
	2019 RM'000	2018 RM'000
Cash and bank balances	10,399	7,011

12. ASSETS CLASSIFIED AS HELD FOR SALE

In the previous financial year, the Group 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 was the same as its carrying value before it was being reclassified to current asset.

13. CAPITAL AND RESERVES

	Group and Company			
	Amount	Number of	Amount	Number of
	2019	shares	2018	shares
	RM'000	RM'000	RM'000	RM'000

Share capital

Ordinary shares, issued and fully paid:

At 31 December	267,500	234,500	267,500	234,500
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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.

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	
	2019	2018
	RM'000	RM'000

Current

Bank overdraft – unsecured	42,827	64,454
Loan from a related company – unsecured	114,604	115,850
Revolving credit – unsecured	100,000	-
	257,431	180,304

15. EMPLOYEE BENEFITS

15.1 Retirement benefits

	Group	
	2019	2018
	RM'000	RM'000
Net defined benefit liability/Total employee benefit liabilities	91,444	95,282

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.

NOTES TO THE FINANCIAL STATEMENTS

15. EMPLOYEE BENEFITS (CONTINUED)

15.1 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 RM8,927,000 in contributions to defined benefit plans in 2020.

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		Fair value of plan assets		Net defined benefit liability	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Balance at 1 January	97,712	101,506	(2,430)	(11,757)	95,282	89,749
Included in profit or loss						
Interest cost/(income)	5,353	5,572	-	(411)	5,353	5,161
Curtailment loss	544	-	-	-	544	-
	5,897	5,572	-	(411)	5,897	5,161
Included in other comprehensive expense/(income)						
Remeasurement loss/(gain):						
Actuarial loss/(gain) arising from:						
- experience adjustments	253	821	-	(449)	253	372
- financial assumptions	1,773	-	-	-	1,773	-
Return on plan assets excluding interest income	-	-	991	-	991	-
	2,026	821	991	(449)	3,017	372
Others						
Benefits paid	(12,179)	(10,187)	12,179	10,187	-	-
Contributions paid by employer	-	-	(12,752)	-	(12,752)	-
Balance at 31 December	93,456	97,712	(2,012)	(2,430)	91,444	95,282

15. EMPLOYEE BENEFITS (CONTINUED)

15.1 Retirement benefits (continued)

Plan assets

Plan assets comprise:

	Group	
	2019 RM'000	2018 RM'000
Cash and cash equivalents	451	87
Others	1,561	2,343
	2,012	2,430

Defined benefit obligation

Actuarial assumptions

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

	Group	
	2019	2018
Discount rate	5.50%	5.75%

Assumptions regarding future mortality are based on published statistics and mortality tables.

At 31 December 2019, the weighted-average duration of the defined benefit obligation was 8.23 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
2019		
Discount rate (1.0% movement)	(6,798)	7,837
Future pension growth (0.5% movement)	466	(466)
Future mortality (1 year movement)	(2,623)	2,588
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

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

16. TRADE AND OTHER PAYABLES

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Trade					
Trade payables	16.1	983,551	1,066,054	275	54
Amounts due to related companies	16.2	137,471	194,510	-	-
Amount due to an associate	16.2	12,933	7,190	-	-
Designated as hedging instruments					
- Commodity futures		72	711	-	-
- Forward exchange contracts		8,600	4,893	-	-
		1,142,627	1,273,358	275	54
Non-trade					
Amounts due to related companies	16.2	617	64,771	-	-
Other payables		57,794	48,194	-	-
Accrued expenses		120,369	140,953	1,583	1,637
		178,780	253,918	1,583	1,637
		1,321,407	1,527,276	1,858	1,691

16.1 Trade payables

Included in trade payables is an amount of RM128,669,000 (2018: RM110,435,000) relating to trade payables under supplier financing arrangement.

16.2 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 in the previous year which was subject to interest at 3.13% to 3.38% per annum.

17. RESULTS FROM OPERATING ACTIVITIES

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Results from operating activities is arrived at after charging/(crediting):					
Auditors' remuneration					
Audit fees:					
- KPMG PLT		488	490	174	174
Non-audit fees:					
- KPMG PLT		18	45	18	18
- Affiliates of KPMG PLT		97	29	72	2
- Other auditors		1,753	822	7	-

17. RESULTS FROM OPERATING ACTIVITIES (CONTINUED)

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Results from operating activities is arrived at after charging/ (crediting):					
Material expenses/(income)					
Amortisation of intangible assets	5	1,571	414	-	-
Depreciation of right-of-use assets	4	32,411	29,612	-	-
Depreciation of property, plant and equipment	3	133,506	135,328	-	-
Impairment loss on property, plant and equipment	3	9,812	-	-	-
(Gain)/Loss on disposal of property, plant and equipment		(852)	195	-	-
Net foreign exchange loss/(gain)					
- Realised		8,758	12,254	5	2
- Unrealised		3,329	(5,866)	-	-
Net (reversal)/impairment loss on trade receivables		(3,384)	14,253	-	-
Personnel expenses (including key management personnel):					
- Contributions to Employees Provident Fund		54,673	59,076	-	-
- Expenses related to defined benefit plans		5,897	5,161	-	-
- Share-based payments		10,919	5,344	-	-
- Wages, salaries and others		503,309	546,561	-	-
Property, plant and equipment written off		5,704	1,534	-	-
(Reversal)/Provision of restructuring and rationalisation cost		(1,963)	17,535	-	-
Dividend income from					
- Subsidiaries (unquoted)		-	-	(661,600)	(656,600)
- Associate (unquoted)		-	-	(450)	(420)
Gain on disposal of leasehold land		-	(7,410)	-	-
Net gain on divestment	28	(20,960)	(9,417)	-	-
Expenses arising from leases					
Finance cost of lease liabilities		7,949	5,185	-	-
Expenses relating to short-term leases		42,065	42,376	-	-

NOTES TO THE FINANCIAL STATEMENTS

18. INCOME TAX EXPENSE

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Recognised in profit or loss				
Income tax expense	202,812	217,008	753	571
Major components of income tax expense include:				
Current tax expense				
Malaysian - current year	207,950	212,990	589	451
- prior year	(6,113)	965	164	120
Total current tax recognised in profit or loss	201,837	213,955	753	571
Deferred tax expense				
Reversal of temporary differences	(5,018)	(716)	-	-
Under provided in prior years	5,993	3,769	-	-
Total deferred tax recognised in profit or loss	975	3,053	-	-
Total income tax expense	202,812	217,008	753	571
Reconciliation of tax expense				
Profit for the year	672,913	658,882	660,253	655,443
Total income tax expense	202,812	217,008	753	571
Profit before tax	875,725	875,890	661,006	656,014
Income tax calculated using Malaysian tax rate of 24%	210,174	210,214	158,641	157,443
Non-deductible expenses	10,195	4,774	1,255	693
Tax exempt income	(12,278)	(5,806)	(159,307)	(157,685)
Reduction of income tax rate based on the increase in chargeable business income*	-	(16)	-	-
Other items	(5,159)	3,108	-	-
	202,932	212,274	589	451
(Over)/Under provided in prior years				
- Current tax	(6,113)	965	164	120
- Deferred tax	5,993	3,769	-	-
	(120)	4,734	164	120
	202,812	217,008	753	571

* Income Tax (Exemption) (No. 2) Order 2017 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 2018.

19. OTHER COMPREHENSIVE (EXPENSE)/INCOME

Group	2019			2018		
	Before tax RM'000	Tax benefit/ (expense) RM'000	Net of tax RM'000	Before tax RM'000	Tax (expense)/ benefit RM'000	Net of tax RM'000
Item that is or may be reclassified subsequently to profit or loss						
Cash flow hedge						
- (Losses)/Gains arising during the year	(8,161)	1,882	(6,279)	17,302	(4,077)	13,225
- Reclassification adjustments for losses included in profit or loss	3,749	(899)	2,850	(2,046)	491	(1,555)
	(4,412)	983	(3,429)	15,256	(3,586)	11,670
Item that will not be reclassified subsequently to profit or loss						
Remeasurement of defined benefit liability	(3,017)	724	(2,293)	(372)	89	(283)
	(7,429)	1,707	(5,722)	14,884	(3,497)	11,387

20. EARNINGS PER ORDINARY SHARE – BASIC AND DILUTED

The calculation of earnings per ordinary share for the year ended 31 December 2019 was based on the profit attributable to ordinary shareholders of RM672.9 million (2018: RM658.9 million) and 234.5 million (2018: 234.5 million) ordinary shares outstanding during the year.

NOTES TO THE FINANCIAL STATEMENTS

21. DIVIDENDS

Dividends recognised by the Company:

	Sen per share	Total amount RM'000	Date of payment
2019			
Final 2018 ordinary	140	328,300	30 May 2019
Interim 2019 ordinary - first	70	164,150	10 October 2019
- second	70	164,150	19 December 2019
Total amount		656,600	
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	

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 2019 ordinary	140	328,300

22. OPERATING SEGMENTS

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

Nutrition, Nestlé Professional and Nestlé Health Science are considered as Regionally Managed Businesses (“RMB”). Nespresso is considered as Globally Managed Business (“GMB”). All these 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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Segment revenue and results						
Revenue	4,679,996	4,427,010	838,080	1,092,035	5,518,076	5,519,045
Operating profit	751,800	744,937	162,135	169,884	913,935	914,821
<i>Included in the measure of segment operating profit are:</i>						
Depreciation of property, plant and equipment	116,390	119,365	17,116	15,963	133,506	135,328

Reconciliations of reportable segment profit or loss

	Group	
	2019 RM'000	2018 RM'000
Profit or loss		
Total profit for reportable segments	913,935	914,821
Finance costs	(40,663)	(43,123)
Finance income	3,662	3,622
Other unallocated expenses	(1,942)	(225)
Share of profit of an associate not included in reportable segments	733	795
Consolidated profit before tax	875,725	875,890

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS

23.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

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

Financial assets	Carrying amount RM'000	AC RM'000	Derivatives designated as hedging instruments RM'000
2019			
Group			
Trade and other receivables	518,120	511,599	6,521
Cash and cash equivalents	10,399	10,399	-
	528,519	521,998	6,521
Company			
Trade and other receivables	408,111	408,111	-
2018			
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	-

23. FINANCIAL INSTRUMENTS (CONTINUED)

23.1 Categories of financial instruments (continued)

Financial liabilities	Carrying amount RM'000	AC RM'000	Derivatives designated as hedging instruments RM'000
2019			
Group			
Loans and borrowings	(257,431)	(257,431)	-
Trade and other payables	(1,321,407)	(1,312,735)	(8,672)
	(1,578,838)	(1,570,166)	(8,672)
Company			
Trade and other payables	(1,858)	(1,858)	-
2018			
Group			
Loans and borrowings	(180,304)	(180,304)	-
Trade and other payables	(1,527,276)	(1,521,672)	(5,604)
	(1,707,580)	(1,701,976)	(5,604)
Company			
Trade and other payables	(1,691)	(1,691)	-

23.2 Net gains and losses arising from financial instruments

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Net (losses)/gains on:				
Fair value through profit or loss				
- Designated upon initial recognition	(3,742)	2,355	-	-
Financial assets at amortised cost				
- Mandatorily required by MFRS 9	7,046	(10,605)	2,465	2,568
Financial liabilities at amortised cost	(41,398)	(43,111)	(5)	(2)
	(38,094)	(51,361)	2,460	2,566

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS (CONTINUED)

23.3 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

23.4 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.

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.

23. FINANCIAL INSTRUMENTS (CONTINUED)

23.4 Credit risk (continued)

Receivables (continued)

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 RM51,137,000 (2018: RM59,681,000).

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 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.

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS (CONTINUED)

23.4 Credit risk (continued)

Receivables (continued)

Recognition and measurement of impairment loss (continued)

The following table provides information about the exposure to credit risk and ECLs for trade receivables.

Group	Gross RM'000	Loss allowance RM'000	Net RM'000
2019			
Not past due	157,048	-	157,048
Past due 1 – 30 days	6,831	-	6,831
Past due 31 – 90 days	7,020	(293)	6,727
	170,899	(293)	170,606
Credit impaired			
More than 90 days past due	3,098	-	3,098
Individually impaired	31,922	(31,922)	-
Trade receivables	205,919	(32,215)	173,704
Collateralised trade receivables			
- where no loss allowance recognised	36,643	-	36,643
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

23. FINANCIAL INSTRUMENTS (CONTINUED)

23.4 Credit risk (continued)

Receivables (continued)

Recognition and measurement of impairment loss (continued)

Trade receivables which are credit impaired amounting to RM19,300 (2018: RM15,046,000) are partially collateralised in the form of financial guarantee by banks. No impairment loss has been provided to the extent of the collateral value of the financial guarantee (2018: 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	Trade receivables		
	Lifetime ECL RM'000	Credit impaired RM'000	Total RM'000
Balance at 1 January 2018	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 2018/1 January 2019	3,959	31,640	35,599
Impairment loss reversed	(3,666)	(3,164)	(6,830)
Impairment loss recognised	-	3,446	3,446
Balance at 31 December 2019	293	31,922	32,215

Expected credit loss of other receivables

Expected credit loss of other receivables is determined individually after considering the financial strength of the other receivables. 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.

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS (CONTINUED)

23.4 Credit risk (continued)

Amounts due from subsidiaries and related companies

Risk management objectives, policies and processes for managing the risk

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

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 loss

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

- The subsidiary or related company is unlikely to repay its loan or advance to the Company in full;
- The subsidiary's or related company's loan or advance is overdue for more than 365 days; or
- The subsidiary or related company 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 and related companies.

23.5 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.

23. FINANCIAL INSTRUMENTS (CONTINUED)

23.5 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
2019							
Non-derivative financial liabilities							
Bank overdraft - unsecured	42,827	3.40	42,827	42,827	-	-	-
Loan from a related company - unsecured	114,604	2.87 - 4.31	114,808	114,808	-	-	-
Revolving credit - unsecured	100,000	3.33	100,127	100,127	-	-	-
Trade and other payables, excluding derivatives	1,312,735	-	1,312,735	1,312,735	-	-	-
Lease liabilities	205,576	3.50 - 4.63	235,652	29,113	41,296	95,304	69,939
	1,775,742		1,806,149	1,599,610	41,296	95,304	69,939
Derivative financial liabilities/(assets)							
Forward exchange contracts (gross settled):							
- Outflow	2,630	-	1,140,603	1,140,603	-	-	-
- Inflow	-	-	(1,137,973)	(1,137,973)	-	-	-
Commodity futures	(479)	-	(479)	(479)	-	-	-
	1,777,893		1,808,300	1,601,761	41,296	95,304	69,939

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS (CONTINUED)

23.5 Liquidity risk (continued)

Maturity analysis (continued)

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	116,902	116,902	-	-	-
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		1,946,092	1,734,458	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		1,943,738	1,732,104	63,019	107,214	41,401

23. FINANCIAL INSTRUMENTS (CONTINUED)

23.6 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.

23.6.1 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.

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 are as follows:

Group	← 2019 →			← 2018 →		
	Denominated in			Denominated in		
	USD RM'000	GBP RM'000	EUR RM'000	USD RM'000	GBP RM'000	EUR RM'000
Trade receivables	986	-	-	3,320	-	-
Trade payables	(112,777)	(1,127)	(22,809)	(93,027)	(10,233)	(18,647)
Intra-group receivables	152,137	-	-	137,354	-	4
Intra-group payables	(58,902)	(7,363)	(1,014)	(87,757)	(9,565)	(352)
Loan from a related company – unsecured	(114,604)	-	-	(115,850)	-	-
Commodity futures	8	-	-	67	(599)	-
Exposure in the statement of financial position	(133,152)	(8,490)	(23,823)	(155,893)	(20,397)	(18,995)
Net contracted foreign exchange contracts	417,355	43,414	57,499	391,167	42,665	39,422
Net exposure	284,203	34,924	33,676	235,274	22,268	20,427

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS (CONTINUED)

23.6 Market risk (continued)

23.6.1 Currency risk (continued)

Currency risk sensitivity analysis

A 10% (2018: 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	
	2019 RM'000	2018 RM'000
USD	(28,420)	(23,527)
GBP	(3,492)	(2,227)
EUR	(3,368)	(2,043)

A 10% (2018: 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 remained constant.

23.6.2 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.

23. FINANCIAL INSTRUMENTS (CONTINUED)

23.6 Market risk (continued)

23.6.2 Interest rate risk (continued)

Exposure to interest rate risk

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

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Fixed rate instrument				
Financial liabilities	(205,576)	(206,976)	-	-
Floating rate instruments				
Financial assets	86,129	79,167	74,810	75,933
Financial liabilities	(257,431)	(243,502)	-	-
	(171,302)	(164,335)	74,810	75,933

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.

Cash flow sensitivity analysis for floating rate instruments

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 RM1,713,000 (2018: RM1,643,000) and RM748,000 (2018: RM759,000) respectively on the floating rate financial instruments. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

23.6.3 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.

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS (CONTINUED)

23.6 Market risk (continued)

23.6.3 Commodity price risk (continued)

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.

23.7 Hedging activities

23.7.1 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 U.S. Dollars ("USD"), Great Britain Pound ("GBP") 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 to align 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.

23. FINANCIAL INSTRUMENTS (CONTINUED)

23.7 Hedging activities (continued)

23.7.1 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.

23.7.2 Fair value hedge

The Group uses fair value hedges to mitigate foreign currency risks of the loan denominated in USD from Nestlé Treasury Center ("NTC") – Middle East & Africa. The forward exchange contracts has nominal value of RM114,604,000 (2018: RM113,906,000). 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
2019			
Forward exchange contracts	(874)	(874)	(874)
2018			
Forward exchange contracts	6,203	6,203	6,203

23.7.3 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 nominal value of RM1,028,594,000 (2018: RM925,107,000) and RM6,788,000 (2018: RM8,817,000) respectively. The forward exchange contracts and commodity futures are entered into within a year and settled according to the individual contracts settlement date.

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS (CONTINUED)

23.7 Hedging activities (continued)

23.7.3 Cash flow hedge (continued)

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
2019			
Forward exchange contracts	(1,756)	(1,756)	(1,756)
Commodity futures	479	479	479
2018			
Forward exchange contracts	(3,317)	(3,317)	(3,317)
Commodity futures	(532)	(532)	(532)

During the financial year, a loss of RM6,279,000 (2018: gain of RM13,225,000) net of tax was recognised in the other comprehensive income and a gain of RM2,850,000 (2018: loss of RM1,555,000) net of tax was reclassified from equity to profit or loss. There is no ineffective gain/loss recognised in profit or loss during the financial year in respect of the hedge (2018: gain of RM309,000).

23. FINANCIAL INSTRUMENTS (CONTINUED)

23.8 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 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
2019										
Financial assets										
Commodity futures	551	-	-	551	-	-	-	-	551	551
Forward exchange contracts	-	5,970	-	5,970	-	-	-	-	5,970	5,970
Loans to employees	-	-	-	-	-	-	26,025	26,025	26,025	26,025
	551	5,970	-	6,521	-	-	26,025	26,025	32,546	32,546
Financial liabilities										
Commodity futures	(72)	-	-	(72)	-	-	-	-	(72)	(72)
Forward exchange contracts	-	(8,600)	-	(8,600)	-	-	-	-	(8,600)	(8,600)
	(72)	(8,600)	-	(8,672)	-	-	-	-	(8,672)	(8,672)
2018										
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)
	(711)	(4,893)	-	(5,604)	-	-	-	-	(5,604)	(5,604)

NOTES TO THE FINANCIAL STATEMENTS

23. FINANCIAL INSTRUMENTS (CONTINUED)

23.8 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 (2018: 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.

23.9 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 statement 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.

23. FINANCIAL INSTRUMENTS (CONTINUED)

23.9 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
2019				
Derivative financial assets				
Forward exchange contracts designated as hedging instruments	9	5,970	(4,843)	1,127
Derivative financial liabilities				
Forward exchange contracts designated as hedging instruments	16	(8,600)	4,843	(3,757)
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	16	(4,893)	3,705	(1,188)

24. 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

25. CAPITAL AND OTHER COMMITMENTS

	Group	
	2019 RM'000	2018 RM'000
Capital expenditure commitments		
Plant and equipment		
Contracted but not provided for	2,298	15,103

26. CONTINGENCIES

The Directors are of the opinion that provision is not required in respect of this matter, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Contingent liabilities not considered remote

Litigation

Nestlé Products Sdn. Bhd. ("NPS"), the wholly owned subsidiary of Nestlé (Malaysia) Berhad was served with a sealed Writ of Summons and Statement of Claim dated 6 March 2019, filed by Mad Labs Sdn. Bhd. ("Mad Labs"). The claim by Mad Labs against NPS is for amongst others, the sum of RM139,344,262.25. An amended Writ of Summons dated 21 March 2019 was further filed by Mad Labs and served subsequently on 25 March 2019.

In the Statement of Claim, Mad Labs is alleging inter alia, the unauthorised and/or unlawful use of Mad Labs's QR Code, breach of an implied contract between Mad Labs and NPS by reason of NPS's continued use of the QR Code, unjust enrichment of NPS by the use of the QR Code, compensation for the services which Mad Labs has rendered to NPS and NPS's negligence in using Mad Labs's QR Code on its products/packaging. NPS has filed and served its Statement of Defence dated 22 April 2019 to dispute the claims made by Mad Labs. In addition to filing the Statement of Defence, NPS has separately filed an action at the Intellectual Property Court against Mad Labs and its sole director and shareholder, Chow Kien Loon ("CKL") for amongst others, to challenge the ownership of Mad Labs in the QR Code, negligence, unlawful interference with trade as well as defamation and trade libel. Mad Labs and CKL have been served the sealed Writ of Summons and Statement of Claim dated 23 April 2019 filed by NPS through its solicitors.

On 9 December 2019, the Court has allowed the consolidation and transfer of Mad Labs's claim to the Intellectual Property Court to be heard together with NPS's claim. Both NPS and Mad Labs are presently complying with pre-trial directions and dealing with interlocutory application.

Based on the opinion rendered by solicitors representing NPS, Messrs. Zaid Ibrahim & Co., NPS has a reasonably strong case against Mad Labs and CKL. Accordingly, the Board is of the opinion that no provision needs to be made for this claim.

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 parties 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.

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 16.

Group	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Related companies					
Sales of goods and services	a	(975,074)	(960,489)	-	-
Purchases of goods and services	a	984,674	809,513	-	-
Royalties		270,797	271,444	-	-
IT shared services		31,208	36,452	-	-
Finance costs	b	1,792	9,937	-	-
Finance income	c	-	-	(2,465)	(2,568)
Key management personnel					
Directors					
- Fees		1,326	1,403	1,326	1,403
- Remuneration		6,172	8,133	-	-
- Other short-term employee benefits (including estimated monetary value of benefits-in-kind)		1,027	1,193	50	50
Total short-term employee benefits		8,525	10,729	1,376	1,453
Post-employment benefits		255	274	-	-
Share-based payments		1,597	652	-	-
		10,377	11,655	1,376	1,453

NOTES TO THE FINANCIAL STATEMENTS

27. RELATED PARTIES (CONTINUED)

Significant related party transactions (continued)

Group	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Other key management personnel*					
- Remuneration		8,512	6,891	-	-
- Other short-term employee benefits (including estimated monetary value of benefits-in-kind)		724	821	-	-
Total short-term employee benefits		9,236	7,712	-	-
Post-employment benefits		590	446	-	-
Share-based payments		1,923	1,642	-	-
		11,749	9,800	-	-
		22,126	21,455	1,376	1,453

* Increase in the number of Executive Leadership Team members.

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 2.87% to 4.31% (2018: 1.80% to 3.49%) per annum and are repayable on demand.

Note c Loans to subsidiaries are unsecured, subject to interest at 3.14% to 4.91% (2018: 3.13% to 3.38%) 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

Sale of Chilled Dairy business and Petaling Jaya factory

On 9 October 2018, the Group announced that it would move its 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.

In the financial year 2018

The Chilled Dairy business has been divested and a net gain of RM9.4 million has been recognised in financial year ended 31 December 2018.

Effects of the divestment of Chilled Dairy business on financial position of the Group were:

	2018
	RM'000
Cash consideration	14,200
Less: Expenses directly attributable to divestment	(3,720)
Net proceeds from divestment	10,480
Less:	
Property, plant and equipment	(131)
Inventories	(932)
Net gain on divestment	9,417

NOTES TO THE FINANCIAL STATEMENTS

28. SIGNIFICANT EVENT (CONTINUED)

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

In the financial year 2019

Following from the above, the Group has divested the PJ factory, including the manufacturing of chilled dairy products and cold sauces and the packing of milk powder on 1 July 2019 and recognised a net gain of RM20.9 million.

Effects of the divestment of PJ factory on financial position of the Group are as follows:

	2019
	RM'000
Cash consideration	141,100
Less: Retention sum	(200)
Net cash inflow	140,900
Less: Expenses directly attributable to divestment	(41,895)
Net proceeds from divestment	99,005
Less:	
Leasehold land	(14,431)
Property, plant and equipment	(58,261)
Inventories	(3,446)
Spare parts	(1,907)
Net gain on divestment	20,960

STATEMENT BY DIRECTORS

Corporate
Governance
& Financial
Report 2019

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

In the opinion of the Directors, the financial statements set out on pages 48 to 122 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 2019 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

25 February 2020

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 48 to 122 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 25 February 2020.

Craig Grant Connolly
Chief Financial Officer

Before me:

Guna Papoo
Commissioner of Oaths (No. B338)

Petaling Jaya, Malaysia

INDEPENDENT AUDITORS' REPORT

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 2019 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 48 to 122.

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 2019, 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 GrWoup 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 22 – 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.

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.

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

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 the 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.

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

Petaling Jaya, Malaysia

25 February 2020

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

SHAREHOLDINGS STATISTICS

AS AT 28 FEBRUARY 2020

Authorised Capital	:	RM300,000,000
Issued and paid-up share capital	:	RM267,500,000
Class of shares	:	Ordinary shares of RM1.00 each
No. of shareholders	:	6,762
Voting rights	:	One vote per ordinary share

SUBSTANTIAL SHAREHOLDERS

Name	Number of shares held	%
Nestlé S.A.	170,276,563	72.613
Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	17,516,500	7.470

30 LARGEST SHAREHOLDERS

Name	Number of shares held	%
1 NESTLÉ S.A.	170,276,563	72.613
2 CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD	17,516,500	7.470
3 KUMPULAN WANG PERSARAAN (DIPERBADANKAN)	2,821,700	1.203
4 CITIGROUP NOMINEES (TEMPATAN) SDN BHD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 1)	1,924,810	0.821
5 CARTABAN NOMINEES (ASING) SDN BHD EXEMPT AN FOR STATE STREET BANK & TRUST COMPANY (WEST CLT OD67)	1,743,800	0.744
6 AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC DIVIDEND FUND	1,354,700	0.578
7 PERTUBUHAN KESELAMATAN SOSIAL	1,098,000	0.468
8 HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	1,032,370	0.440
9 HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR VANGUARD EMERGING MARKETS STOCK INDEX FUND	889,757	0.379
10 AMANAHRAYA TRUSTEES BERHAD PUBLIC ISLAMIC EQUITY FUND	847,800	0.362
11 MAYBANK NOMINEES (TEMPATAN) SDN BHD MAYBANK TRUSTEES BERHAD FOR PUBLIC ITTIKAL FUND (N14011970240)	794,000	0.339
12 CARTABAN NOMINEES (TEMPATAN) SDN BHD PAMB FOR PRULINK EQUITY FUND	718,800	0.307

Name	Number of shares held	%
13 CARTABAN NOMINEES (ASING) SDN BHD GIC PRIVATE LIMITED FOR GOVERNMENT OF SINGAPORE (C)	535,300	0.228
14 AMANAHRAYA TRUSTEES BERHAD PUBLIC ITTIKAL SEQUEL FUND	500,800	0.214
15 MAYBANK NOMINEES (TEMPATAN) SDN BHD MTRUSTEE BERHAD FOR PRINCIPAL DALI EQUITY GROWTH FUND (UT-CIMB-DALI) (419455)	497,900	0.212
16 DB (MALAYSIA) NOMINEE (ASING) SDN BHD BNYM SA/NV FOR PEOPLE'S BANK OF CHINA (SICL ASIA EM)	462,600	0.197
17 CITIGROUP NOMINEES (TEMPATAN) SDN BHD EMPLOYEES PROVIDENT FUND BOARD (NOMURA)	461,300	0.197
18 KWANG TEOW SANG SDN BHD	430,700	0.184
19 HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR BLACKROCK INSTITUTIONAL TRUST COMPANY, N.A. INVESTMENT FUNDS FOR EMPLOYEE BENEFIT TRUSTS	413,200	0.176
20 CITIGROUP NOMINEES (ASING) SDN BHD EXEMPT AN FOR CITIBANK NEW YORK (NORGES BANK 1)	397,792	0.170
21 BATU PAHAT SENG HUAT SDN BERHAD	363,985	0.155
22 HSBC NOMINEES (ASING) SDN BHD MORGAN STANLEY & CO. INTERNATIONAL PLC (FIRM A/C)	355,408	0.152
23 HSBC NOMINEES (ASING) SDN BHD JPMCB NA FOR MSCI EQUITY INDEX FUND B - MALAYSIA	349,700	0.149
24 CITIGROUP NOMINEES (TEMPATAN) SDN BHD GREAT EASTERN LIFE ASSURANCE (MALAYSIA) BERHAD (PAR 3)	347,400	0.148
25 HSBC NOMINEES (ASING) SDN BHD J.P. MORGAN SECURITIES PLC	317,700	0.135
26 HSBC NOMINEES (ASING) SDN BHD TNTC FOR FUTURE FUND BOARD OF GUARDIANS	305,600	0.130
27 CITIGROUP NOMINEES (ASING) SDN BHD UBS AG	293,096	0.125
28 CITIGROUP NOMINEES (ASING) SDN BHD LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED (A/C 1125250001)	290,485	0.124
29 KUOK FOUNDATION BERHAD	274,200	0.117
30 CITIGROUP NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR AIA BHD.	260,000	0.111

SHAREHOLDINGS STATISTICS

AS AT 28 FEBRUARY 2020

Size of Holdings	No. of Shareholders/ Depositors	% of Shareholders Depositors	No. of Shares Held	% of Issued Capital
1 – 99	948	14.020	6,210	0.003
100 – 1,000	4,091	60.500	1,885,944	0.804
1,001 – 10,000	1,251	18.500	4,518,677	1.927
10,001 – 100,000	388	5.738	11,988,858	5.113
100,001 – less than 5% of issued shares	82	1.212	28,307,248	12.071
5% and above of issued shares	2	0.030	187,793,063	80.082
Total	6,762	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	62,000	0.00208	-	-
Juan Jose Aranols Campillo	10,710	0.00036	-	-

LIST OF PROPERTIES HELD

AT 31 DECEMBER 2019

Corporate
Governance
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Location	Tenure	Age*	Expiry Date	Size (m2)	Description	Net Book Value RM'000
1. Lot No. 3, 5, 75 & 76 Jalan Playar 15/1 40700 Shah Alam Selangor	Leasehold	10 - 49**	10.6.2070	113,396	Factory	39,876
2. Lot No. 6 Pesiaran Raja Muda 40700 Shah Alam Selangor	Leasehold	50	29.1.2070	36,835	Factory & Warehouse	10,573
3. Lot Nos. 687 - 696, 3863 - 3866, 4671, 4673, 5435 & 5807 Mukim Chembong Daerah Rembau Negeri Sembilan	Leasehold	23 - 28	15.11.2048 27.06.2049 13.08.2055 20.11.2095	136,199	Factory	2,583
4. Lot Nos. 3857 - 3862 & 4672 Jalan Perusahaan 4, Kawasan Perindustrian Chembong, Chembong Rembau, Negeri Sembilan	Leasehold	23 - 28	27.6.2049 20.11.2095	33,870	Factory	1,227
5. Lot No. 844, Block 7 Muara Tebas Land District Sejingkat Industrial Estate Kuching, Sarawak	Leasehold	28	19.10.2053	25,460	Factory	284
6. Lot 915, Block 7 Muara Tebas Land District Demak Laut Industrial Park Kuching, Sarawak	Leasehold	25	12.10.2054	12,740	Factory	548
7. Lot 3846, Pekan Chembong Daerah Rembau Negeri Sembilan	Leasehold	6	26.06.2049	4,249	Vacant land	269

* Approximation of age of property in years.

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

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NESTLÉ (MALAYSIA) BERHAD

Registration No.: 198301015532 (110925-W)

22-1, 22nd Floor, Menara Surian
No. 1, Jalan PJU 7/3
Mutiara Damansara
47810 Petaling Jaya
Selangor Darul Ehsan
Malaysia

Tel (+603) 7965 6000
Fax (+603) 7965 6767

Nestlé Consumer Services Free Phone
1-800-88-3433

Facebook
<http://www.facebook.com/Nestle.Malaysia>

Website
www.nestle.com.my



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