Nestlé

Good Food, Good Life

CORPORATE GOVERNANCE & FINANCIAL REPORT 2017

Good Food, Good Life

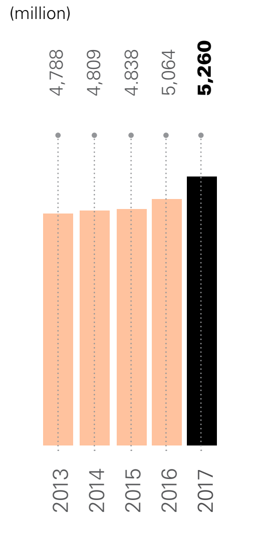
Key Highlights

- Delivered higher revenue of RM5.3 billion, a 3.9% increase compared to the previous year.
- This was supported by strong export and domestic businesses, which grew 3.0% and 4.1% respectively.
- Due to prudent cost management and effective marketing and trade investments, Nestlé (Malaysia) Berhad and its group of companies (the Group) recorded a Profit before Tax of RM814 million and Profit after Tax of RM646 million, an increase of 6.2% and 1.4% respectively for the financial year ended 31 December 2017.
- Proposed final dividend of RM1.35 per share, bringing total dividends for the year to RM2.75 per share.

Financial Performance

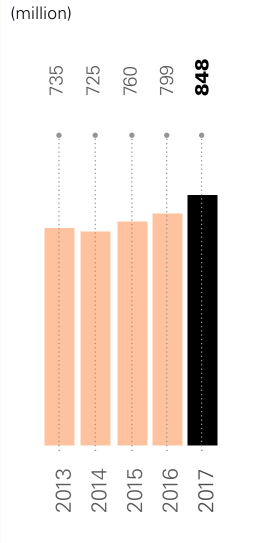
Turnover

+ 3.9%



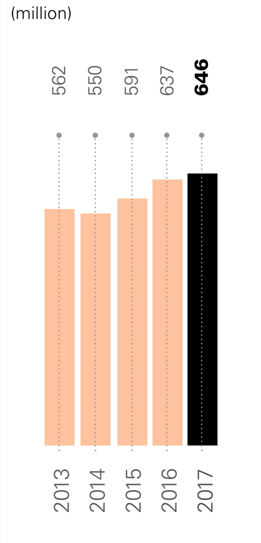
Operating Profit

+ 6.1%



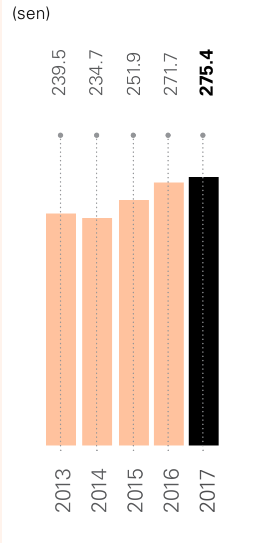
Net Profit

+ 1.4%



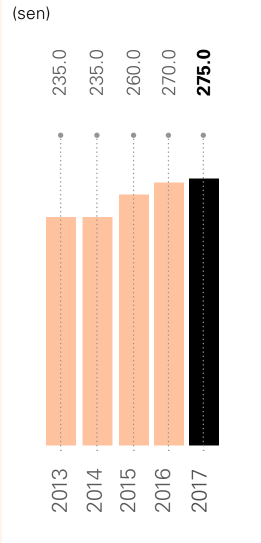
Earnings per share

+ 1.4%

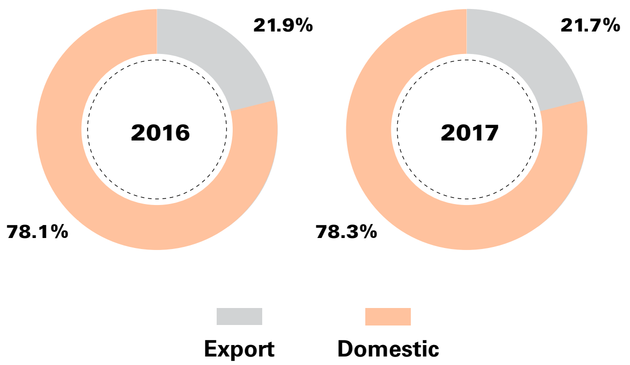


Net Dividend per share

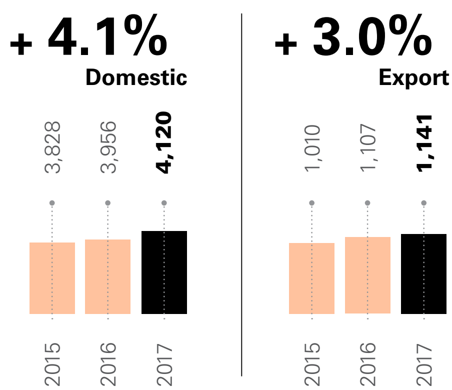
+ 1.9%



Total Sales (%)



Growth (RM million)



Our Purpose

Enhancing quality of life and contributing to a healthier future

This is our purpose.
This is why we exist.
This is what inspires and drives us as individuals and as a company. This is how we contribute to society while ensuring the long-term success of Nestlé (Malaysia) Berhad (Company).

FOR INDIVIDUALS AND FAMILIES

Enabling healthier and happier lives

FOR OUR COMMUNITIES

Helping develop thriving, resilient communities

FOR THE PLANET

Stewarding resources for future generations

To access more information, log on to www.nestle.com.my or scan the QR code.

Inside This Report

Corporate Governance Overview Statement

Letter from the Chairman

“

DEAR SHAREHOLDERS,

I am pleased to present the Nestlé Corporate Governance Overview for 2017. We have structured our report once again to reflect the themes of the Malaysian Code on Corporate Governance 2017 (MCCG 2017). This Corporate Governance Overview Statement should be read in conjunction with the Corporate Governance Report, which is accessible online at www.nestle.com.my. In the following pages, we set out details of our approach to corporate governance and the activities of the Board of Directors (the Board) and its Committees during the year.

”

The role of the Board is to lead the Company and to oversee its governance. The Directors also recognise the Board's pivotal role in shaping the Group's culture and values.

Nestlé is an organisation built upon solid ethical foundations with a strong and constant culture. The members of the Board, together with Senior Management (Nestlé Leadership Team), continue to work closely with the businesses to promote ethical culture and standards across the Group through a robust governance framework. This is seen as an important factor in protecting and delivering sustainable long-term value for Shareholders.

As Chairman, my focus has been on leading the Board to ensure that it operates effectively, has the right balance of independence, experience, diversity and skill, and demonstrates a healthy culture of scrutiny and challenge. This year, the Board will recommend for re-election, the following Directors, who are due to retire at the forthcoming Annual General Meeting (AGM):

- Dato' Mohd. Rafik Bin Shah Mohamad
- Tan Sri Datuk (Dr.) Rafiah Binti Salim
- Mr. Martin Peter Kruegel

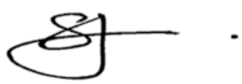
In line with practice 4.2 of the MCCG 2017, and following independence assessments, I am pleased to announce that, after serving more than nine years as Independent Director, the Board is recommending that the following Directors be retained as Independent Non-Executive Directors:

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

As I have been on the Board for more than 12 years, the Nomination Committee and Board had deliberated and approved for my redesignation as Non-Independent Non-Executive Director. As an interested party, I had abstained from all deliberations and decisions.

The practice of good corporate governance enhances the credibility and reputation of the Company, as it promote and safeguards the interests of Shareholders and other Stakeholders.

As an organisation that is committed to the highest standards, we consistently look to embed a culture of strong governance.



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

As always, we welcome any feedback on this report through the website www.nestle.com.my or in person at the AGM in April 2018.

Corporate Governance Overview Statement
Leadership

The Board

The Board is collectively responsible to the Company's Shareholders for the direction and oversight of the Company to ensure its long-term success. The Board met regularly throughout the year to approve the strategic objectives of the Group, to lead the Group within a framework of effective controls which enable risk to be assessed and managed, and to ensure that sufficient resources are available to meet the objectives set.

There are a number of matters which are specifically reserved for the Board's approval. These are set out clearly in the Board Charter and include:

01 **Review, approve and adopt the Group's strategic plans and annual budgets.**

02 **Declaration of dividends, approval of financial statements, accounts and quarterly reports of the Group.**

03 **Acquisition, divestment or closure of business.**

04 **Establishment of new substantial businesses.**

05 **Significant capital investment and disposal of material assets from the existing business to a third party.**

06 **Increase or reduction of subsidiary's issued capital.**

07 **Any corporate restructuring not covered by the above-mentioned paragraphs.**

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

The Board Charter is regularly reviewed and available on the corporate governance section of the Company's website www.nestle.com.my.

Certain specific responsibilities are delegated to the Board Committees, notably the Audit Committee and the combined Nomination and Compensation Committee, which operate within clearly defined terms of reference and report regularly to the Board. For further details, please see the 'Board Committees' section. Authority for the operational management of the Group's business has been delegated to the Chief Executive Officer (CEO) for execution or further delegation by him for the effective day-to-day running and management of the Group.

Board Roles and Their Responsibilities

Chairman and Chief Executive Officer

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

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

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

Independent Directors

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

Non-Executive Directors

In addition to their responsibilities for strategy and business results, the Non-Executive Directors play a key role in providing a solid foundation for good corporate governance and ensure that no individual or group dominates the Board's decision-making. They each occupy, or have occupied, senior positions in industry, bringing valuable external perspectives to the Board's deliberations through their experience and insight from other sectors enabling them to contribute significantly to Board decision-making.

Company Secretary

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

Election and Re-Election of Directors

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

In addition, in line with the practices of Nestlé S.A., its major shareholder, the Board had in 2016 adopted a limit of 72 years of age for the Directors. In relation to the tenure policy, currently there is no limit set for their tenure, provided that they meet the assessment as well as the relevant codes and regulations on independence and retention, and there is strong justification for them to continue with their tenure based on their performance and contribution.

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

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

Board Meetings

The Board held five meetings during the year. Members of the Management Team are invited, when appropriate, to attend Board meetings and to make presentations on the results and strategies of their business units. Papers for Board and Board Committee meetings are generally provided to Directors five business days in advance of the meetings.

The attendance of the Directors at Board and Board Committee meetings in 2017 is shown in the table below.

Board Committees

The Board has established two principal Board Committees, to which it has delegated certain responsibilities. These are the Audit Committee and the combined Nomination and Compensation Committee. The combined Nomination Committee and Compensation Committee was established on 20 February 2018 to replace the previously separate Nomination Committee and Compensation Committee. The membership, responsibilities and activities of these Committees are described later in this Corporate Governance & Financial Report 2017. Membership of these Committees are reviewed annually. Minutes of Board Committee meetings are made available to all Directors on a timely basis. All Board and Board Committee members attend the AGM to answer questions relating to the Group or the work of the Board and its committees.

The written terms of reference for the Audit and the combined Nomination and Compensation Committees are available on the Company's website (www.nestle.com.my) and hard copies are available on request.

Board and Board Committees Meeting Attendance

Name of Members	Board Committee	Audit Committee	Nomination Committee	Compensation Committee	Joint Meeting of Nomination Committee and Compensation Committee
Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail	5/5	4/4	3/3	-	1/1
Dato' Mohd. Rafik Bin Shah Mohamad	5/5	4/4	-	2/2	1/1
Tan Sri Datuk (Dr.) Rafiah Binti Salim	5/5	4/4	-	2/2	1/1
Tan Sri Datuk Yong Poh Kon	5/5	-	3/3	-	1/1
Dato' Frits van Dijk	5/5	-	3/3	2/2	1/1
Toh Puan Dato' Seri Hajjah Dr. Aishah Ong	5/5	-	-	-	-
Alois Hofbauer	5/5	-	-	2/2	1/1
Martin Peter Kruegel	5/5	-	-	-	-

The Work of the Board During The Year

During the year, key activities of the Board include:

Main Activities of the Board for the Year

- Review and approve the cumulative full year results for the financial year ended 31 December 2016 and approve the Director's Report and Audited Accounts for the financial year ended 31 December 2016.
- Review and approve the Director's Report and Audited Accounts for the financial year ended 31 December 2016.
- Review and approve the Quarterly Results for the financial year ended 31 December 2017 and the cumulative 1st half year results for the financial year ended 31 December 2017.
- Review the report on the Company's quarterly performance and outlook for the year.
- Approve dividend payments and review the solvency position of the Group.
- Review and approve the financial results announcements.
- Review of the Group's compliance with the Main Market Listing Requirements (Listing Requirements) of Bursa Malaysia Securities Berhad (Bursa), 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 Group's strategy and plans.
- Review the structure of the Group.
- Receive the update on Nestlé Business Excellence initiative.
- Review and approve the general budget.
- Review and approve the capital expenditure budget.
- Receive updates on risk management.
- Receive updates on the Recurrent Related Party Transactions by the Group.
- Report on major litigation, claims and/or issues with substantial financial impact (if any).
- Review and approve the Terms of Reference of the Board, Audit Committee, the Nomination and Compensation Committee.
- Note the minutes of meetings and approve the reports and recommendations from the Audit Committee, Nomination Committee, Compensation Committee and the Joint Meeting of the Nomination Committee and Compensation Committee.
- Review the report of the Nestlé Internal Audit, the recommendations and Management responses.
- Review the report of the external auditor.
- Review and approve succession plans, policy on Board composition and Board Diversity (including gender, ethnicity/cultural background and age diversity).
- Review and approve the Diversity Policy.
- Note the management development and succession plans for the Nestlé Leadership Team.
- Review and validate the results of the 2017 Board Effectiveness Evaluation, review the composition and skills of the Board and Board Committees and the performance and effectiveness of the Board, Board Committees and individual Directors.

- Review the policy on tenure of Directors.
- Review the term of office and assess the retirement of Directors by rotation, the retention of Directors and eligibility for re-election or retention.
- Review the trainings for the Board.
- Review and approve the recommendation for the 2016 proposed fees and the benefits to be paid to the Non-Executive Directors.
- Note the remuneration of the Executive Directors.
- Note the remuneration of the Nestlé Leadership Team and receive updates on the changes to the Nestlé Leadership Team.
- Review and approve the Remuneration Direction for 2018.
- Reaffirm and ratify the Circular Resolutions passed by the Board.
- Note the Company's announcements which had been released to Bursa.
- Note the amendments to the Listing Requirements.
- Review the submission of the semi-annual returns.
- Receive human resources updates.
- Receive update on the "Nestlé & I" 2016 survey.
- Receive updates from the Creating Shared Value Council.
- Receive updates on the Nestlé Malaysia Group Retirement Scheme (Pension Fund).
- Receive updates on the Collective Agreements with the Unions.
- Receive updates on Quarterly Analyst/Investors briefings.
- Receive updates on the WHO Code Compliance.
- Receive updates on the quarterly Nestlé S.A. results.
- Recommend the re-appointment of the Group's external auditor for the financial year ending 31 December 2017 and for the Directors to fix their remuneration.
- Review and approve the draft Circular to Shareholders in relation to the Proposed Renewal of Shareholders' Mandates and New Shareholders' Mandate for Recurrent Related Party Transaction of revenue or trading nature.
- Review and approve the Statement on Internal Control and Risk Management for the Annual Report 2016.
- Review and approve the Annual Report 2016.
- Preparation for the 2017 AGM and review of the e-voting procedure.
- Review the outcome of the MCCG 2017 gap analysis.
- Review the effectiveness of the Board meetings.
- Approve the Board Agenda for 2018.

Corporate Governance Overview Statement

Effectiveness

Board Composition

The Board comprises of eight Directors, two of whom are women and a majority of them are Independent Directors. One Director is Non-Independent Non-Executive and five Directors are Non-Executive and independent of management, thereby promoting critical review and control of the management process. The Non-Executive members of the Board bring a wide range of business and financial experience to the Board, which contributes to the effective direction of the Group. Details of all Directors and their biographies are provided in pages 50 to 61 of the Annual Review 2017.

Commitment

All of the Directors do not hold more than five directorships of any listed issuer at any one time. This is not only in line with the Listing Requirements but also to ensure that the Directors are able to discharge their responsibilities.

In order 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. In addition to the scheduled meetings, whenever any direction or decisions are required expeditiously or urgently from the Board, 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' Circular Resolutions between the scheduled and special meetings. In 2017, six Circular Resolutions ranging from administrative to operational issues were approved by the Directors.

The Board has outlined the proper procedure which the Directors need to comply with, before accepting any new external Board appointment. The Chairman and the CEO will decide on the acceptance of the request. If there is a potential conflict in the pending appointment, it will be tabled at the Nomination and Compensation Committee meeting notwithstanding that Paragraph 15.06 of the Listing Requirements allows for a Director to sit on the Board of up to five listed issuers. Such notification is expected to include an indication of time that will be spent on the new external appointment.

Appointments to the Board

The process for the nomination and appointment of Directors is a vital process as it determines the composition and quality of the Board's capacity and competency. The Nomination and Compensation Committee is entrusted by the Board to review candidates for the appointment to the Board.

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

The Company is guided by the following process and procedures for nomination of new candidates

01 **Identification of Skills/Gaps**

02 **Selection of Candidates**

03 **Assessment of Candidates**

04 **Initial Interaction with Candidates**

05 **Review by Nomination and Compensation Committee**

06 **Recommendation for Board's Approval**

07 **Board Approval**

The Nomination and Compensation Committee in making its recommendation on candidates for directorship will consider the candidate's

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

Board Development

The Chairman, with the support of the Company Secretary, is responsible for the induction of new Directors and the continuing development of Directors.

Board Inductions

Induction programmes are conducted for newly appointed Directors, which include briefings by the Management Team and also site visits to provide the Directors with the necessary information to assist them in understanding the operations of the Group, current issues and corporate strategies as well as the management structure of the Company and the Group.

Information Flow

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

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

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

The Board firmly believes that effective deliberation and its decision making process is highly dependent on the quality of information furnished by the Management Team.

As part of the Board's initiative to promote environmental sustainability and efficiencies as much as possible, the Board has adopted paperless meetings through the usage of electronic devices. From time-to-time, whenever the Board requires relevant updates from any members of the Management Team, the relevant member of the Management Team is invited to attend meetings of the Board or the Board Committees to provide the Board or the Board Committees with any such relevant information or updates. Professional advisers may also be invited to attend Board or the Board Committee meetings, as the case may be, to provide additional insights and professional views, advice and explanations on specific items on the meeting agenda.

All Directors have direct access to the Management Team and have unrestricted access to all information and documents relevant to the business and affairs of the Group.

Training and Development

All Directors attended and successfully completed the Mandatory Accreditation Programme as required under the Listing Requirements. Further, the Directors are encouraged to attend continuous education programmes, talks, seminars, workshops and conferences to enhance their skills and knowledge and to ensure that the Directors are kept abreast with new developments in the business environment, corporate governance and enhance their skills and knowledge. On an on-going basis, the Company identifies conferences and seminars which are beneficial for the Directors to attend. In addition, the Directors received face-to-face briefings, training and presentations on matters which are relevant to the Company's operation.

In addition, the Company from time-to-time provides internal briefings and also reading materials to the Directors on key corporate governance developments, any salient changes to the Listing Requirements, laws and regulations, and on matters pertaining to the latest development in areas relating to the Directors' roles and responsibilities. The Directors are also briefed on matters relevant to the operations and activities of the Company, the Company's initiatives on Creating Shared Value (CSV) and efforts on sustainability by the CSV Council. The Directors are also encouraged to attend appropriate trainings on subject matters that aid the Directors in the discharge of their duties and responsibilities as Directors.

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

Internal Training	Attendees
• Human Resources Practices and Updates • Marketing Services & Social Media • E-Commerce & Digital Economy • Understanding Procurement Processes • Understanding the Roles of Procurement Hub • Understanding the NESPRESSO Business • Safety, Health & Environment • Introduction on Corporate Purpose & Value* • Briefing on Innovation Award 2017 • Managing the Risks of Cyber Security	• Attended by all Directors and the Company Secretary
Leading the Nestlé Way (Part 1 & 2)	• Tengku Ida Adura Binti Tengku Ismail (Company Secretary)

* Dato' Frits van Dijk, was unable to attend the training.

Director	External Training
Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail	• ACI Breakfast Roundtable • Managing the Risk of Fraud
Dato' Mohd Rafik Bin Shah Mohamad	• Highlights on Companies Act 2016 • ACI Breakfast Roundtable • Game Changers under the Companies Act 2016: Key Insights & Implication for Boardroom Matters • Bursa Fraud Risk Management Workshop • Khazanah Mega Trends 2017 • Managing the Risk of Fraud
Tan Sri Datuk (Dr.) Rafiah Binti Salim	• Launching of Malaysian Code on Corporate Governance 2017 • International Director's Summit 2017, Enhancing Resilience Through Governance for Sustainability • Minda Power Talk, Corporate Intelligence • Managing the Risk of Fraud • "Leading Change @ The Brain Corporate" Governance Breakfast Series • Key Highlights on the Latest Amendments to the Listing Requirements
Dato' Frits van Dijk	• Managing the Risk of Fraud
Tan Sri Datuk Yong Poh Kon	• Managing the Risk of Fraud
Toh Puan Dato' Seri Hajjah Dr. Aishah Ong	• Managing the Risk of Fraud
Alois Hofbauer	• Finance for Non-Financial Professionals • Corporate Governance Module 1, 2 & 3 (INSEAD) • IMD Digital Workshop • Managing the Risk of Fraud
Martin Peter Kruegel	• Future of Making Things: Executive Briefing • Managing the Risk of Fraud
Tengku Ida Adura Binti Tengku Ismail	• Workshop on Companies Act 2016 • ACI Breakfast Roundtable • SSM NATIONAL CONFERENCE 2017: 'Implementing the Companies Act 2016. Moving Together. Greater Together'. • Effective Board Performance Evaluation For Company Secretaries (BURSA) • Managing the Risk of Fraud • LH Talk Series : Dawn Raids

Evaluating The Board

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

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

In 2017, the Board Improvement Programme was implemented as a result of a Board Effectiveness Evaluation conducted in 2016. The Board Improvement Programme is a framework in which a number of areas have been identified during the Board Effectiveness Evaluation, which require further improvements and further enhancements on the Board effectiveness. Some of the key areas addressed by the Board Improvement Programme were on human capital development and succession planning.

Another Board Effectiveness Evaluation was facilitated in 2017 by an external party, Tricor Corporate Services Sdn. Bhd., to evaluate and assess amongst others, the Board as a whole, the Board Committees, the individual Directors, the independence of the individual Directors and the Board's skills matrix. The results of the 2017 Board Effectiveness Evaluation will be used as a basis for a refined Board Improvement Programme to be adopted in 2018. Overall, the results of the Board Effectiveness Evaluation were positive based on the majority of responses and feedback received.

Board Remuneration

The Board adopted a remuneration policy for the Directors which sets out that Directors' remuneration shall be determined based on the following criteria:-

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

Procedure

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

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

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

a. Fees for acting as a Director

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

b. Fees for assuming additional responsibilities

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

c. Meeting Attendance Allowance

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

Meeting Allowance

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

The breakdown of the Directors' remuneration paid in 2017 is as follows:

Name	Fees [2]	Salary [3]	Emoluments & Benefits [4]	Total
	(RM)	(RM)	(RM)	(RM)
RM, in Gross [1]				
Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail	335,000	-	26,000	361,000
Dato' Mohd Rafik Bin Shah Mohamad	175,000	-	24,000	199,000
Tan Sri Datuk [Dr.] Rafiah Binti Salim	165,000	-	24,000	189,000
Tan Sri Datuk Yong Poh Kon	135,000	-	18,000	153,000
Dato' Frits van Dijk	150,000	-	22,000	172,000
Toh Puan Dato' Seri Hajjah Dr. Aishah Ong	120,000	-	10,000	130,000
Alois Hofbauer	-	1,167,216	2,160,775	3,327,991
Martin Peter Kruegel	-	683,034	1,286,764	1,969,798
TOTAL	**1,080,000**	**1,850,250**	**3,571,539**	**6,501,789**

1 Numbers are provided before tax.
2 Fees paid to Non-Executive Directors.
3 Salary paid to Executive Directors.
4 Benefits and other emoluments include bonuses, allowances, provisions for leave passage, attendance fees, club membership and other benefits and allowances.

Senior Manager's Remuneration

The Company takes guidance from Nestlé S.A. to determine the level of remuneration that the Senior Managers of the Company receive. Such guidance ensures that remuneration packages are set at industry standards, reflect a Senior Manager's roles, responsibilities, level of skills and experience, and motivates performance. For further details of the Company's Senior Manager's Remuneration, please refer to our Corporate Governance Report which is available online at www.nestle.com.my.

Corporate Governance Overview Statement

Accountability

Ensuring Quality in Financial Reporting

The working procedures determined annually by the Board include detailed instructions on the type of financial reports and similar information which are to be submitted to the Board. In addition to the full-year report, interim reports and the annual report, the Board reviews and evaluates comprehensive financial information regarding the Group as a whole.

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

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

An annual assessment of the objectivity, independence, performance, experience, competency and quality of service delivery of the Group's external auditor was conducted by the Nestlé Internal Audit and the Audit Committee.

The assessment was made in accordance with the established policy practiced by the Company to assess the suitability and independence of the external auditor. There were no major gaps identified and the Audit Committee was satisfied with the results of the assessment and subsequently made the necessary recommendation to the Board.

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

On 20 February 2018, the Board approved the Audit Committee's recommendation for the re-appointment of the external auditor, KPMG PLT for Shareholders' approval at the forthcoming 2018 AGM.

Risk Management and Internal Controls

The Board acknowledges its overall responsibility for monitoring the Group's risk management and internal control systems in order to facilitate the identification, assessment and management of risk, and the protection of Shareholders' investments and the Group's assets. The Directors recognise that they are responsible for providing a return to Shareholders, which is consistent with the responsible assessment and mitigation of risks.

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

01

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

02

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

03

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

04

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

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

The Board's Professionalism

Code of Conduct

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

Nestlé Corporate Business Principles

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

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

We delight consumers
(Principles 1, 2, 3)

We care about people
(Principles 4, 5, 6)

We develop responsible partnerships
(Principles 7, 8)

We promote sustainability
(Principles 9, 10)

Nestlé Principles and Policies Map

We delight consumers
(Principles 1, 2, 3)

We care about people
(Principles 4, 5, 6)

Consumer			Human rights and labor practices	Our People
1	**2**	**3**	**4**	**5**
Nutrition, Health and Wellness	**Quality assurance and product safety**	**Consumer communication**	**Human rights in our business activities**	**Leadership and personal responsibility**
Nestlé Principles on Nutrition, Health and Wellness	Nestlé Quality Policy Nestlé Nutrition Quality Policy	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)	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	Nestlé Management and Leadership Principles Nestlé Code of Business Conduct Nestlé Human Resources Policy

Nestlé Code of Business Conduct

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

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

The NCBC is premised on three basic principles, which are:-
(a) Avoidance of any conduct that could damage or create risk to the Group or its reputation;
(b) Legal compliance and honesty, to place the Group's interests ahead of personal or other interests; and
(c) Guidance on how the Group's employees should behave.

We develop responsible partnerships
(Principles 7, 8)

We promote sustainability
(Principles 9, 10)

Suppliers and Customer

The Environment

Principle	Area	Policy
6	**Safety and health at work**	Nestlé Policy on Safety and Health at Work
7	**Supplier and customer relations**	Nestlé Supplier Code
8	**Agriculture and rural development**	Nestlé Policy on Environmental Sustainability
9	**Environmental sustainability**	Nestlé Policy on Environmental Sustainability
10	**Water**	Nestlé Policy on Environmental Sustainability Nestlé Commitments on Water

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

Nestlé Malaysia Anti-Corruption, Gifts & Entertainment Guidelines

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

In 2017, the Group rolled out an e-Learning on the Guidelines to be completed by all employees with access to computer. These employees have also made an Integrity Pledge to be corruption free and to comply with the Guidelines.

Agreements with suppliers, customers and employees were tightened to ensure strict adherence to the Group's stance against corruption.

Corporate Governance Overview Statement

Relations with Shareholders

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

2017 Quarterly Results	Date of Issue/ Release	Number of Days after End of Quarter
Q1 2017	25 April 2017	25
Q2 2017	21 August 2017	52
Q3 2017	7 November 2017	38
Q4 2017	20 February 2018	51

Investor Relations

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

In 2017, the Company held four quarterly briefings and the Company also engaged with institutional investors on a regular basis.

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

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

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

Name	:	Martin Peter Kruegel
Address	:	Nestlé (Malaysia) Berhad (110925-W) 22-1, 22nd Floor Menara Surian No. 1, Jalan PJU 7/3, Mutiara Damansara 47810 Petaling Jaya Selangor Darul Ehsan
Tel No.	:	+603 7965 6000
E-mail	:	InvestorRelations.Malaysia@my.nestle.com

Disclosure of Information

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

Reporting via The Internet

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

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

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

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

Media Coverage

Media coverage on the Company through print media, digital and television coverage, is also initiated proactively at regular intervals to provide wider publicity and improve the general understanding of the Company's business among investors and the public. Total media coverage on online platform in 2017 increased by 28% and the quantity of news coverage online has more than doubled in 2017 compared to 2016.

Key media coverage in print and online news sites during the year under review:

Month	Initiative	Date	Publications	Headlines
January	MILO – FC Barcelona Partnership	Jan 19	Star, New Straits Times, Sin Chew Jit Poh, etc.	Nestlé-FC Barcelona form pact to help 22 million kids
February	2016 Full Year Results	Feb 28	The Edge, Star, New Straits Times, Bernama, Berita Harian, etc.	Nestlé's Solid Performance: Crosses RM5billion mark
March	2017 Business Outlook	Mar 20	The Edge	Nestlé looks to keep upward momentum this year
April	Wellness Together-Gather Campaign	Apr 14	New Straits Times, Kosmo, The Sun, Bernama, etc.	Nestlé Malaysia invests over RM1 million on wellness campaign
	Healthier Choice Logo Launch – Ministry of Health	Apr 23	The Star, Harian Metro, The Sun, etc.	Healthier Choice Approved
May	Factory Visit by Ministry of Domestic Trade, Cooperatives and Consumerism	May 4	The Star, New Straits Times, Harian Metro, Bernama, etc.	Working at Nestlé a family affair
June	World Environment Day	Jun 5	Borneo Post (Kota Kinabalu)	680,000 trees planted in a bid to save Kinabatangan River
July	Research & Development Centre in Singapore	Jul 17	The Star, Sin Chew Jit Poh, Remaja, Berita Harian, Harian Metro	Nestlé committed to producing healthy and balanced products
August	Media Familiarisation Trip to Nestlé Paddy Club, Kedah	Aug 10	New Straits Times, Berita Harian, The Star, China Press, Harian Metro, etc.	Helping hands for Paddy
September	Nestlé S.A. Creating Shared Value Prize	Sept 12	The Star, Sin Chew, China Press, Guang Ming	Nestlé engages with innovative change makers
	Nutrition, Health and Wellness Interviews	Sept 15	New Straits Times Press, Harian Metro, Berita Harian	Nestlé pushes for healthier lifestyle
October	Purpose & Value Day	Oct 4	Harian Metro, International Times, The Star, New Sabah Times, etc.	Driving towards a healthier lifestyle
November	Launch of the Global Procurement Hub in Malaysia	Nov 23	The Edge, The Star, New Straits Times, The Malaysian Reserve, The Sun, Utusan, Nanyang Siang Pau, etc.	Nestlé opens Global Procurement Hub in KL
December	Business Year in Review	Dec 20	The Sun	Nestlé Malaysia in RM100 a share club, thanks to innovation

This table summarises the key media coverage published throughtout 2017. For the full list of Nestlé Malaysia press releases, visit www.nestle.com.my/media/pressreleases

Annual General Meeting

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

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

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

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

To strengthen the Company's corporate governance, all resolutions set out in the Notice of the AGM, will be put to e-voting during the AGM. A press conference will be held immediately after the AGM where the Chairman, CEO, CFO and if necessary, selected members of the Management Team 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 on the same meeting day.

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

The 34th AGM will be held on 26 April 2018 at the Hilton Kuala Lumpur Hotel.

Additional Compliance Initiatives

I. WHO Code Ombudsperson System

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

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

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

II. Nestlé Supplier Code

The Nestlé Supplier Code defines the non-negotiable minimum standards that the Group expects from its suppliers and their sub-tier suppliers, to respect and to adhere to when conducting business with the Group. This document helps the continued implementation of the Group's commitment to international standards such as the OECD Guidelines for Multinational Enterprises, the United Nations Guiding Principles on Business and Human Rights, the Core Conventions of the ILO and the ten Principles of the United Nations Global Compact, beyond the Group's own operations, to every link of our upstream supply chain back to farms and plantations. The Nestlé Supplier Code is an extension of the Nestlé Corporate Business Principles and the foundation of our Responsible Sourcing program.

III. Personal Data Protection

In light of the Personal Data Protection Act 2010 (PDPA) which came into effect in November 2013, the Group embarked on various compliance and awareness activities to ensure that the Group is compliant with the PDPA and operates in accordance with the NCBP.

For the financial year ended 31 December 2017, the Group reviewed its personal data collection practices and implemented a new Nestlé Malaysia Personal Data Guidelines which outlines the requirements for the Group and its employees in handling and using personal data in compliance with the PDPA.

Following the introduction of the new Nestlé Malaysia Personal Data Guidelines, the Group in 2017, rolled-out an extensive awareness program which included numerous engagements and trainings for employees involved in handling and using personal data.

Awareness on PDPA and the Nestlé Malaysia Personal Data Guidelines are also included in induction trainings for new employees.

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

The Group continuously keeps its privacy practices updated with continuous engagement with the relevant business and function units responsible over personal data.

IV. Compliance Framework Structure

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

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

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

(a) Compliance Programme

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

(b) Compliance Committees Meetings

For the financial year ended 31 December 2017, four meetings of the Compliance Steering Committee were convened whereby the various initiatives and directions under the Compliance Programme were presented by the Market Compliance Officer and further deliberated and endorsed by the Compliance Steering Committee before they were cascaded for implementation by the Market Compliance Officer and the Compliance Champions Committee. There were five meetings convened by the Compliance Champions Committee. The Compliance Champions Committee meetings were chaired by the CFO and, apart from sharing the direction and endorsements of the Compliance Steering Committee, the agenda of the meetings typically involve discussions on refining the Compliance Programme's initiatives and tools, updating the progress of various initiatives under the Compliance Programme and updating the status of various plans.

V. 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.

VI. Competition Law and Antitrust Policy

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

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

For 2018, the Group will continue to put in place action plans in reviewing and ensuring that the Group's existing business transactions and practices continue to adhere to current competition laws and are conducted within the framework of the Nestlé Antitrust Policy.

VII. Business Ethics and Fraud Committee

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

Whistleblowing Policy

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

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

The Group's employees are strongly encouraged to speak up and raise any suspicions of wrongdoing, malpractice or impropriety in the management of the Group's business by bringing up these issues with their line managers or through the internal whistleblowing procedures which were implemented in 2011. The internal whistleblowing procedures are an integral part of a comprehensive framework which outlines when, how and to whom a concern may be properly raised, distinguishes a concern from a personal grievance, and allows the whistleblower the opportunity to raise a concern outside his or her management line.

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

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

TELEPHONE

1 800-88-4307

Dial 1800-88-4307
(Toll Free Number)

Key in Access Code 41830
(Select language)

State your concern(s) and
it will be transcribed for you.
(You will be given a case number)

Redial 1800-88-4307 and insert
case number to check on the "Status"

EMAIL

Noncompliance.mailbox@my.nestle.com

Write an email detailing your
concern(s)

Send email directly to
Noncompliance.mailbox@my.nestle.com

Your email will be replied along
with the updated "Status" of the
case

INTERNET

www.speakupfeedback.eu/web/nm34k/my
(Select language)

Key in Access Code 41830
(Select new message)

Type and post a message on the
website
(You will be given a case number)

Re-enter into website and insert case
number to check on the "Status"

In 2017, eight complaints were received via the Non-Compliance Hotline.

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 and recurrent 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 27 April 2017 (the date of the last AGM) to 2 March 2018, are as follows:

- Purchases of semi-finished and finished food products from Nestlé affiliated companies which amounted to approximately RM641 million;
- Payment of royalties for the use of trademarks for the sale of food products to Nestlé affiliated companies amounting to approximately RM237 million;
- Payment for information technology shared services for use and maintenance of information technology services to Nestlé affiliated companies which amounted to RM37 million;
- Sale of food products to Nestlé affiliated companies amounting to approximately RM847 million;
- Payment for shared services of approximately RM2.6 million for Cereal Partners (Malaysia) Sdn. Bhd., RM2.1 million for Purina Petcare (Malaysia) Sdn. Bhd., RM2.4 million for Wyeth Nutrition (Malaysia) Sdn. Bhd. and RM1.8 million for Nestrade S.A.

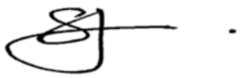
Additionally, the following Recurrent Related Party Transaction entered into by the Company with related party, which is below the Shareholders' mandate threshold, has been reviewed:

- Payment of interests for Intra Group Loan of approximately RM6.1 million to Nestlé Treasury Centre-Middle East & Africa.

Compliance Statement by the Board of Directors on Corporate Governance Statement

The Board has deliberated, reviewed and approved this Corporate Governance 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 all of the applicable laws, regulations, internal and external guidelines on corporate governance throughout the financial year ended 31 December 2017. This Corporate Governance Statement was presented and approved at the meeting of the Board on 2 March 2018.

On behalf of the Board



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

Corporate Governance Overview Statement
Audit Committee Report

Preamble from the Audit Committee Chairman

> "Our work continues to focus on the quality and timeliness of the Group's financial reporting, the rigour of the external and internal processes, the Group's management of risk and its system of internal controls."

Composition

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

Chairman	Meeting Attendance (4 meetings held in 2017)
Dato' Mohd. Rafik Bin Shah Mohamad *Independent Non-Executive Director* (Fellow of the Association of Chartered Certified Accountants, United Kingdom; member of the MIA) *Appointed on 20 February 2018 following the redesignation of Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail as an Independent Director.*	4/4
Member	
Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail *Non-Independent Non-Executive Director* (Member of the Australian Society of Certified Practising Accountants; member of the MIA) *He was the Chairman of the Audit Committee until his redesignation as an Independent Director on 20 February 2018*	4/4
Tan Sri Datuk (Dr.) Rafiah Binti Salim *Independent Non-Executive Director*	4/4

The Audit Committee is chaired by an Independent Director who is a member of the Malaysian Institute of Accountants (MIA), appointed by the Board from its members. The Chairman of the Audit Committee is not the Chairman of the Board. All of the members of the Audit Committee are Non-Executive Directors, with a majority being Independent Directors.

The Chairman of the Audit Committee, Dato' Mohd. Rafik Bin Shah Mohamad, and another member, Tan Sri Dato' Seri Syed Anwar Jamalullail, are both qualified Chartered Accountants, being members of the MIA. Tan Sri Datuk (Dr.) Rafiah Binti Salim was the Assistant Governor of the Central Bank of Malaysia. All members of the Audit Committee are financially literate and equipped with the required business skills. A quorum, established by the presence of the Chairman, and at least one other member who is an Independent Director, has always been met for the meetings of the Audit Committee.

Upon invitation by the Audit Committee, the CFO, representatives of the external auditor, the Head of Nestlé Internal Audit and the Head, Accounting & Consolidation, Insurance/Pension have attended all the Audit Committee meetings. When there was a need by the Audit Committee, the relevant members of the Management Team were also invited to attend the meetings.

Key Objectives:

The provision of effective governance over the appropriateness of the Company's financial reporting including the adequacy of related disclosures, the performance of both the internal audit function and the external auditor and oversight over the Company's systems of internal control, business risks and related compliance activities.

The roles and responsibilities of the Audit Committee and the Terms of Reference can be found online at www.nestle.com.my.

The Audit Committee and its Work:

The membership of the Audit Committee has been selected with the aim of providing a wide range of financial and commercial expertise necessary to meet its responsibilities. The Audit Committee meets at least four times during the year as part of its standard processes, supplemented by additional meetings whenever necessary.

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

The Audit Committee reports to the Board every quarter on matters falling within the Audit Committee's Terms of Reference, including the recommendations of the Audit Committee for the Board's consideration and approval. The Audit Committee continuously reviews and updates its Terms of Reference with the last review carried out on 19 February 2018 and approved by the Board on 20 February 2018.

Main Activities of the Committee During the Year

- Review and approve the cumulative full year results for the financial year ended 31 December 2016 and cumulative 1st half year results for the financial year ended 31 December 2017.
- Review and approve the Directors' Report and Audited Accounts for the financial year ended 31 December 2016.
- Review and approve the Quarterly Results for the financial year ended 31 December 2017 and the cumulative 1st half year result for the financial year ended 31 December 2017.
- Review the proposal of dividend, review the solvency of the Group before recommending to the Board the dividend payments.
- Review of financial results announcements before recommending them for Board's approval.
- Review of the Group'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 of the share premium account.
- Review Nestlé Internal Audit's resource requirements, scope, adequacy and function.
- Review the overall performance of the Head of Nestlé Internal Audit (in her absence).
- Review the performance of the Nestlé Internal Audit team and the individual members of the Nestlé Internal Audit team.
- Review and take cognisance of the movements of Nestlé Internal Audit staff members.
- Review Nestlé Internal Audit's report, recommendations and the response from the Management Team.
- Review the implementation of the Nestlé Internal Audit recommendations through follow up audit reports and suggested additional improvement opportunities in the areas of internal control, systems and efficiency improvement.
- Review the update of the Internal Audit Practices.
- Review external auditor's report and results, management letter and the responses from the Management Team.
- Discuss with external auditor on issues/matters related to the Management Team arising from the audit, conducted on 27 February 2017 and 18 August 2017 (in the absence of the Management Team).
- Note and discuss the outcome of Assessment of the Objectivity, Independence and Quality of Service Delivery of the Group's external auditor for the year ended 31 December 2016 and to ensure the external auditor meets the criteria provided by Paragraph 15.21 of the Listing Requirements.

Main Activities of the Committee During the Year

- Recommend the re-appointment of the Group's external auditor for the financial year ending 31 December 2017 and for the Directors to fix their remuneration.
- Review the remuneration of the external auditor.
- Update on the development of Internal Audit practices.
- Review the Recurrent Related Party Transaction by the Group.
- Review and approve the draft Circular to Shareholders in relation to the Proposed Renewal of Shareholders' Mandates and New Shareholders' Mandate for Recurrent Related Party Transaction of revenue or trading nature.
- Review and deliberate on the risk management, potential major risks of the Group, the mitigating measures and updates.
- Review the cyber security risks of the Group.
- Deliberate on the formation of a separate Risk Management Committee.
- Review and approve the Statement on Internal Control and Risk Management for the Annual Report 2016.
- Report on major litigation, claims and/or issues with substantial financial impact (if any).
- Review the current status of complaints received through the Non-Compliance Hotline.
- Receive updates on the Nestlé Malaysia Group Retirement Scheme (Pension Fund).
- Review the assistance given by employees to the external auditor.
- Facilitate the assessment of the Audit Committee carried out by an independent service provider, Tricor Corporate Services Sdn. Bhd. and review the assessment results.
- Review the composition of the Audit Committee pursuant to the MCCG 2017.
- Review and approve the revised Terms of Reference of the Audit Committee.
- Review and approve the Audit Committee Report to be disclosed in the Annual Report 2016.
- Review the effectiveness of the Audit Committee meeting.
- Review the Audit Plan for 2018.
- Approve the Audit Committee Agenda for 2018.

Nestlé Malaysia Internal Audit Department

Nestlé Internal Audit is aligned to the MCCG 2017. The Nestlé Internal Audit is administered as a department within the Finance & Control function in the Group but reports directly to the Audit Committee and functionally to the Nestlé S.A. Audit Department, also known as "Nestlé Internal Audit (Center)", in Vevey, Switzerland, thus ensuring its independence. Its main role is to undertake independent and systematic reviews of the processes and guidelines of the Group and to report on their application and compliance, the details of which can be found on pages 37 to 40 of the Statement on Risk Management and Internal Control. The outcome of the reviews are objectively reported to the Management Team and to the Audit Committee, prior to the Board.

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

The Nestlé Internal Audit is headed by Ms. Genevieve Yeoh Swee Hoon, 47 years of age. She has served the Company for 17 years in various functions, including the Accounting and Consolidation Department. In August 2008, she was transferred to the Petaling Jaya factory as Factory Controller.

She was transferred back to Head Office in September 2012 to join the Milks Business Unit as the Controller. Starting from July 2013, she was the Business Controller for both MILO and Milks Business Unit. On 1 September 2015, she was appointed as the Head of Nestlé Internal Audit.

Ms. Genevieve obtained her Chartered Institute of Management Accountant (CIMA) qualification in 1996. Her team consists of five auditors, all of whom are qualified and experienced, and all are free from any relationships or conflicts of interest which could impair their objectives and independence.

The costs incurred for the internal audit function for the financial year ended 31 December 2017 is RM1,282,735.46.

RELATIONSHIP WITH EXTERNAL AUDITOR

The Group's transparent and professional relationship with the external auditor is primarily maintained through the Audit Committee. The key features underlying the Audit Committee's relationship with the external auditor are detailed in the Report on the Audit Committee of this Corporate Governance & Financial Report on pages 27 and 30. Engagement of the Company's external auditor are reviewed by the Audit Committee prior to submission to the Board for approval.

The Audit Committee works closely with the Management Team in assessing the suitability, performance and the independence of the external auditor by taking into account the following:

i) the Audit Committee's own assessment; and
ii) the feedback from the senior finance personnel across the Company focusing on a range of factors the Audit Committee considered relevant to audit quality.

Based on the review, the Audit Committee concluded that there had been appropriate focus and challenge on the primary areas of audit and the external auditor had applied robust challenge and skepticism through the audit conducted by them.

The Audit Committee also obtained confirmation from the external auditor that they are and have been, independent throughout the conduct of the audit engagement. Further, in ensuring the independence of the external auditor, the Audit Committee does impose a requirement on the external auditor to rotate the audit partner responsible for the Company audit every five years. In this regard, the Board is satisfied with the suitability and the independence of the external auditor.

The fees paid/payable to the external auditor, KPMG PLT, in the financial year ended 2016 and 2017 were as follows:

	2017 (RM'000)	2016 (RM'000)
Audit and Remuneration	**351**	351
Non-audit services *	**113**	174
Tax compliance review	**29**	24
Total	**493**	549

* *Non-audit services represent 23% of the total fees to external auditor. This amount includes among others, regulatory updates reporting to Nestlé S.A. and review of Annual Report disclosures.*

Corporate Governance Overview Statement

Nomination Committee Report

Preamble from the 2017 Nomination Committee Chairman

"We ensure that the Board comprises individuals with the necessary skills, knowledge and experience to ensure its effectiveness."

Composition

In 2017, prior to the formation of the combined Nomination and Compensation Committee on 20 February 2018, the Board had in place the Board Nomination Committee which had three committee members, who were all then Independent Non-Executive Directors, as follows:

	Meeting Attendance	
	Nomination Committee (3 meetings held in 2017)	Joint meeting of the Nomination Committee & Compensation Committee (1 meeting held in 2017)
Chairman		
Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail	3/3	1/1
Members		
Dato' Frits van Dijk	3/3	1/1
Tan Sri Datuk Yong Poh Kon	3/3	1/1

Key Objectives:

To make sure the Board comprises of individuals with the necessary skills, knowledge and experience to ensure that it is effective in discharging its responsibilities and to have oversight of all matters relating to corporate governance.

The 2017 Terms of Reference of the Nomination Committee can be found online at www.nestle.com.my.

Responsibilities:

- Leads the process for identifying and making recommendations to the Board regarding candidates for appointment as Directors, giving full consideration to succession planning and the leadership needs of the Company.
- Regularly reviews and makes recommendations in relation to the structure, size and composition of the Board including the diversity and balance of skills, knowledge and experience, and the independence of the Independent Non-Executive Directors;
- Oversees the performance evaluation of the Board, the Board Committees and individual Directors;
- Reviews the succession plans, including the potential candidates to the Board, policy on Board composition and Board Diversity (including gender, ethnicity/cultural background and age diversity) and reviews the management development and succession plans for the Management Team of the Company;
- Makes recommendations to the Board on the composition of the Board and Board Committees; and
- Reviews the tenure of each of the Non-Executive Directors.

The Committee and its Work:

The Nomination Committee is chaired by the Chairman of the Board and the Chairman is responsible for the conduct of the committee meetings. Regular meetings are fixed in a calendar year and the Chairman has the discretion to call for additional meetings whenever required. The quorum for the Nomination Committee meeting shall be at least two members present at the meeting.

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

All Nomination Committee meeting minutes, including meeting papers, on matters deliberated by the Nomination Committee in the discharge of its functions are properly documented.

Recommendations by the Nomination Committee are reported at the meeting of the Board by the Chairman of the Nomination Committee for the Board's consideration and approval.

In February 2018, the Board approved the proposal to combine the Nomination and Compensation Committees into a single committee. The combined Committees will assume dual roles of ensuring leadership effectiveness and setting industry competitive compensation.

Main Activities of the Committee During the Year

- Discuss the evaluation to be made on the contribution, performance including core competencies and the effectiveness of the Board, the Board Committees and the individual Directors.
- Facilitate the 2017 Board Effectiveness Evaluation and validate the results thereof. An external service provider, Tricor Corporate Services Sdn. Bhd. was engaged to facilitate the 2017 Board Effectiveness Evaluation.
- Evaluate the size, structure, function, balance and composition of the Board and the Board Committees, including the required mix of skills and experience, core competencies of the Directors for the effective and efficient functioning of the Board and the Board Committees.
- Review the term of office and evaluate the contribution, performance including core competencies and the effectiveness of the Board and individual Directors, the Audit Committee, Nomination Committee, Compensation Committee and each member of the Board Committee to determine whether they have carried out their duties in accordance with their term of reference.
- Discuss the policy on Board composition and Board Diversity (including gender, ethnicity/cultural background and age diversity).
- Review and approve the Diversity Policy.
- Review the implementation and completion of the 2017 Board Improvement Programme, arising out of the 2016 Board Effectiveness Evaluation.
- Assess the independence and time commitment of each Independent Director.
- Review the declaration of the list of directorship by each Director.
- Review and discuss the retirement schedule and succession plans for Non-Executive Directors.
- Assess the retirement of Directors by rotation, the re-election and retention of Directors and eligibility for re-election and retention.
- Facilitate the search for new Non-Executive Director, review and deliberate on potential candidates.
- Review the trainings attended by each Directors, assess the training needs of the Directors and approve the 2017 Training Programme for the Board.
- Review the management development and succession plans for the Executive Leadership Team and the Nestlé Leadership Team.

Main Activities of the Committee During the Year

- Facilitate and review the Corporate Governance diagnostic assessment by KPMG Management & Risk Consulting Sdn. Bhd. pursuant to the MCCG 2017.
- Review the Company's report on the gap analysis based on the MCCG 2017 and formulate the action plan arising therefrom.
- Review and approve the revised Terms of Reference of the Nomination Committee.
- Review and approve the Nomination Committee Report to be disclosed in the Annual Report 2016.
- Review the effectiveness of the Nomination Committee meeting.
- Approve the Nomination Committee Agenda for 2018.

DIRECTORS ELIGIBLE FOR RE-ELECTION/RETENTION AT THE ANNUAL GENERAL MEETING 2017

The following Directors will be retiring at the forthcoming AGM 2018 and are eligible for re-election:

Re-election as Directors pursuant to Article 97.1 of the Company's Constitution:

- Dato' Mohd. Rafik Bin Shah Mohamad
- Tan Sri Datuk (Dr.) Rafiah Binti Salim
- Martin Peter Kruegel

Having served for a cumulative term of more than nine years, the following Directors are being proposed to be retained as Independent Directors at the forthcoming AGM:

Retention of Independent Directors pursuant to Practice 4.2 of the MCCG 2017:

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

ASSESSMENT AND RECOMMENDATION ON RE-ELECTION/RETENTION OF DIRECTORS

Dato' Mohd. Rafik Bin Shah Mohamad

Dato' Mohd. Rafik Bin Shah Mohamad, has been a Director of the Company since 1 June 2007. He was initially appointed as a Non-Independent Non-Executive Director before redesignated as an Independent Non-Executive Director on 7 August 2008. His position as an Independent Non-Executive Director has been assessed pursuant to Practice 4.2 of the MCCG 2017 and it has been agreed to retain Dato' Mohd. Rafik Bin Shah Mohamad as an Independent Non-Executive Director of the Board of Directors and as the Chairman of the Audit Committee.

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

Tan Sri Datuk (Dr.) Rafiah Binti Salim

The recommendation to re-elect and retain Tan Sri Datuk (Dr.) Rafiah Binti Salim as an Independent Director is based on her vast experience in both the domestic public and private sectors. She has been a Director of the Company since 17 April 2009. She has extensive knowledge and experience in legal and human resources from various organisations. Her international experience as Assistant Secretary General for Human Resources Management of the United Nations in New York is a valuable asset to the Board of Directors and the Company. She was the first female Vice-Chancellor of Universiti Malaya. She brings diversity to the Board and the Company believes that she would be able to provide a distinctive outlook and unique perspective in diverse corporate matters.

The recommendation to re-elect and retain Tan Sri Datuk (Dr.) Rafiah Binti Salim is supported by her knowledge and experience. She will be able to provide valuable guidance and input in human resource matters and the operations of the Company as a whole. Her position as an Independent Non-Executive Director has been assessed pursuant to Practice 4.2 of the MCCG 2017 and it has been agreed to retain her as an Independent Non-Executive Director of the Board of Directors and as Member of the Audit Committee.

Corporate Governance Overview Statement
Compensation Committee Report

Preamble from the 2017 Compensation Committee Chairman

"The Committee's role is to ensure compensation policies and executive pay are competitive in order to attract and retain talents."

Composition

In 2017, prior to the formation of the combined Nomination and Compensation Committee on 20 February 2018, the Board had in place the Compensation Committee which had four members, three of them are Independent Non-Executive Directors, as follows:

Meeting Attendance

	Compensation Committee (2 meetings held in 2017)	Joint Meeting of the Nomination Committee & Compensation Committee (1 meeting held in 2017)
Chairman		
Dato' Mohd. Rafik Bin Shah Mohamad	2/2	1/1
Members		
Dato' Frits van Dijk	2/2	1/1
Tan Sri Datuk (Dr.) Rafiah Binti Salim	2/2	1/1
Alois Hofbauer	2/2	1/1

Key Objectives:

To assess and make recommendations to the Board on the policies for remuneration of Directors and employees of the Company.

The 2017 Terms of Reference of the Compensation Committee can be found online at www.nestle.com.my.

Responsibilities:

- Determine, on behalf of the Board, the policy on the remuneration of Non-Executive Directors and the employees of the Company;
- Review and propose to the Board the remuneration package and allowances for the Non-Executive Directors;
- Review the remuneration package for the Executive Directors;
- Review the remuneration package for the Executive Leadership Team and the Nestlé Leadership Team; and
- Review and approve the Management's proposal for the employee salary increase package as recommended by the Group Human Resource Department for subsequent approval by the Board.

The Committee and its Work:

The Compensation Committee is chaired by an Independent Director appointed by the Board amongst its members. The Chairman of the Compensation Committee is responsible for the conduct of the Committee meetings. Regular meetings are fixed in a calendar year and the Chairman has the discretion to call for additional meetings whenever required. The quorum for the Compensation Committee meeting shall be at least three members present at the meeting.

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

The Compensation Committee also reviews and recommends to the Board on an annual basis, the remuneration package for the Group's employees. To ensure the competitiveness of the Group's remuneration package, a benchmarking exercise against companies within the same industry is carried out.

The Compensation Committee reviews at least once in every three years 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, given the experience, expertise and level of responsibility of the Directors.

In 2017, an external professional advisor, Towers Watson (Malaysia) Sdn. Bhd. was engaged to carry out a Board remuneration review and thereafter the Compensation Committee made a recommendation to the Board. In line with the market movement of Non-Executive Director's remuneration, the Compensation Committee had proposed for the Non-Executive Director's remuneration for 2018 onwards to be revised, for approval at the 2019 AGM.

Main Activities of the Committee During the Year

- Review the implementation of the approved Remuneration Direction 2017.
- Review and discuss the proposed fees and benefits to be paid to Non-Executive Directors.
- Facilitate the Board Remuneration Review.
- Review the Remenuration for the Executive Directors.
- Review the remuneration of the Executive Leadership Team and Nestlé Leadership Team.
- Review and approve the proposed Remuneration Direction 2018.
- Receive updates on the status of the Collective Agreements with the Unions.
- Review the "Nestlé & I" 2016 survey results.
- Review the revised Terms of Reference of the Compensation Committee.
- Review and approve the Compensation Committee Report to be disclosed in the Annual Report 2016.
- Approve the Compensation Committee Agenda.

Joint meeting of the Nomination Committee and Compensation Committee

A joint committee meeting between both the Nomination Committee and the Compensation Committee was convened during the year under review. The meeting was attended by all members of the Nomination Committee and the Compensation Committee to discuss issues of common interest. Such issues include the succession plans and management development plans of the Executive Leadership Team and Nestlé Leadership Team, the proposed employee remuneration direction for the year 2018 and the recommendation from the Board Remuneration Review.

Recommendations arising out of the joint meeting of the Committees were reported at the Board meeting for the Board's consideration and approval.

Corporate Governance Overview Statement

Nomination and Compensation Committee

Formation of the Combined Nomination and Compensation Committee

On 20 February 2018, the Board approved the merger of the Nomination and Compensation Committees. The combined Committee is known as the Nomination and Compensation Committee and provides the necessary efficiencies to discharge its roles and responsibilities.

The combined Nomination and Compensation Committee comprises of five members, exclusively of Non-Executive Directors, and a majority of whom are Independent Directors. The members are as follows:

Chairman

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

Members

Dato' Mohd. Rafik Bin Shah Mohamad

Dato' Frit van Djik

Tan Sri Datuk (Dr.) Rafiah Binti Salim

Tan Sri Yong Poh Kon

Even though the Chairman of the Committee is a Non-Independent Director, all other members of the Committee are Independent Non-Executive Directors. Y.A.M Tan Sri Dato' Seri Syed Anuar Jamalullail has been elected as the Chairman of the Committee due to his exemplary leadership and dedication in ensuring an effective Board, with the right composition and expertise, and also in leading the Board's succession planning. His vast experience and knowledge would allow a more efficient and effective Committee, and setting the direction and objective of the Committee.

The key objectives of the Committee are to ensure that the Board comprises of individuals with the necessary skills, knowledge and experience to ensure that it is effective in discharging its responsibilities and to have oversight of all matters relating to corporate governance; and to assess and make recommendations to the Board on policies for remuneration of the members of the Board, Senior Management and employees of the Group.

The Board is satisfied that combining the Nomination Committee and Compensation Committee would lead to an efficient functioning of the committees, as it recognises the links between talent development, succession planning, performance and remuneration. The Nomination and Compensation Committee shall ensure that adequate time is allocated and close attention is accorded for discussions on nomination and compensation matters.

The Terms of Reference of the Nomination and Compensation Committee can be found online at www.nestle.com.my.

Statement on Risk Management and Internal Control

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

HOW WE APPROACH RISK

With the increasingly dynamic and complex business environment, it is critical that we understand the link between risk, internal controls, strategy and value. At Nestlé, this link is formalised through an alignment of our strategy, risk and internal processes, which supports fulfilment of our strategic priorities, thereby delivering value for all Stakeholders.

BOARD OF DIRECTORS' 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 the risk exposures and the design and operating effectiveness of the underlying risk management and internal controls systems. The Audit Committee assists the Board to oversee the following processes:

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

(ii) periodic reviews of the business process and operations reported by the Internal Audit Department, including action plans to address the identified control weaknesses and status update and monitor the implementation of its recommendations; and

(iii) reports by the external auditor of any control issues identified in the course of their audit related and non-audit related work and the discussion with the external auditor of the scope of their respective reviews and findings.

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

The Board considers the work 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 27 to 30 regarding the Committee's detailed review work, including the forms of "assurance" received from the Management, external auditor, and internal auditor.

Our Board's responsibilities include:

01 **The governance of risk.**

02 **Determination of the levels of risk tolerance.**

03 **Ensuring continual risk monitoring by Management.**

04 **Ensuring that risk assessments are performed continually.**

05 **Ensuring that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.**

06 **Ensuring continual risk monitoring by Management.**

07 **Receiving assurance regarding the effectiveness of the risk management process.**

08 **Ensuring that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to Stakeholders.**

OUR RISK MANAGEMENT FRAMEWORK

The Board and the Management Team fully support the content of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers. In support of Nestlé Malaysia Internal Audit Department 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.

Risk management is firmly embedded in the Group's key processes through its Risk Management Framework, in line with Principle B and Practice 9.1 and 9.2 of the Malaysian Code on Corporate Governance 2017. 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 Audit reporting functionally to the Audit Committee and administratively to the Chief Financial Officer. 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:

01 the inherent risk of the business unit/department; and

02 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 covers the overall audit ratings, nature of work and scope, and audit issues and its priorities have been developed as a template to guide the conduct of the follow up audit. For the financial year ended 31 December 2017, the Nestlé Internal Audit conducted six internal audits across corporate functions, warehouse and business units. Four ad hoc reviews were conducted. Observations arising from the internal audit are presented, together with Management Team's response and proposed action plans, to the Audit Committee for its review and approval.

Furthermore, the Nestlé S.A. Audit Department, also known as the "Nestlé Internal Audit (Center)", the internal auditing arm of the holding company, Nestlé S.A., is also responsible for assessing the effectiveness of internal controls 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. The annual internal audit plans and results of the Nestlé Internal Audit (Center) are reported to Nestlé S.A. Management and the Audit Committee of Nestlé S.A. For the financial year ended 31 December 2017, based on the approved annual audit plan and the risk assessment, two audits were performed on the Group by the Nestlé Internal Audit (Center).

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

UNDERSTANDING OUR RISKS

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. The major risks and the Group's responses in order to manage and minimise them are described below.

Risk	Impact	Mitigation
Regulatory action by the F&B Industry	Financial and reputation impact	• We comply with the Nestlé Marketing Communication to Children Policy. • We have a claim policy and regularly review the criteria for the Healthier Choice Logo.
Resource Sustainability, Scarcity & Security	Financial and reputation impact	• The sustainable agriculture initiative at Nestlé (#SAIN) drive the implementation of good agricultural practices at farm level. • We implement a range of water reduction and water efficiency programmes; and we engage with the community on water, sanitation and hygiene projects.
Status as 100% Halal Compliant Company	Financial and reputation impact	• We continue to strengthen our halal communication to the public and all our Stakeholders and regularly perform halal audit to affirm our position as the leading halal manufacturer.
Disruption from External Context	Financial impact	• A Business Continuity Plan (BCP) is in place and is tested regularly.
Digital Revolution and Disruptive Technologies	Financial impact	• Data protection and cyber security systems are in place. We implement the Global Privacy Governance Framework; the new Global Standards for Processing Personal Data; an information security management system; and our Cyber Security Operations Centre prevents and detects cyber attacks and prepares recovery plans in the event of an attack. • Our employees have a high level of awareness about how to maintain cyber security.
Exposure to Quality Issues	Financial and reputation impact	• We promote trust in our ingredients by adhering to the Global Food Safety Initiative (GFSI); and we implement an adulteration prevention process to cover high priority materials. • An early warning system identifies, evaluates and anticipates potential emerging risks to the safety and quality of Nestlé products. • Food safety issue with its action plan will be addressed in the Issue Round Table meetings that being held periodically throughout the year.
Society's Perception of the F&B Industry	Financial and reputation impact	• We bring continuous enhancements to the nutritional profile and health benefits of our portfolio.
Sustainability of the Financial Performance	Financial, people and reputation impact	• We have a sustained focus on Capex efficiency; working capital improvements and asset base optimisation.
People Related Challenges	Financial, people and reputation impact	• We drive Nestlé values. We promote our newly articulated purpose; integrity reporting system; Anti-Corruption Guidelines; and our Nutrition, Health and Wellness employee programme. • The Nestlé & I survey enables us to improve line management and leadership.

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 risk environment in the Group. Although the Group is a networked organisation, a documented and auditable trail of accountability has been established through relevant charters/terms of reference and appropriate authority limits. In addition, authority limits and major Group Policies (health and safety, training and development, equality of opportunity, staff performance, sexual harassment, and serious misconduct) and the Nestlé Corporate Business Principles (available on www.nestle.com.my) have been disseminated and communicated to the Group's employees.

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

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

Financial information, key performance and risk indicators are also reported on a quarterly basis to the Board. In addition to the above, the Group leverages on the Nestlé Internal Control Self-Assessment Tool (ICSAT) for all business units and corporate functions. ICSAT, a globally driven initiative by Nestlé S.A. in response to the changes in the Swiss Code of Obligations for companies listed on the Swiss exchange, is an internally developed Control Self-Assessment Solution which is used to measure each unit's compliance with the minimum internal controls determined by the Group. The objective of control self-assessment is to help each unit better identify their own internal control gaps and to develop specific, measurable, and timely action plans to address these gaps. These results are monitored by the Management Team and reported to the Board through the Audit Committee, as well as to Nestlé S.A. by the Nestlé Internal Audit (Center). ICSAT also acts as a repository for internal controls which may be shared with other Nestlé units across the world.

For the financial year ended 31 December 2017, based on the completed ICSAT for the Group, gaps in respect to the minimum internal controls as determined by the Group are being looked into. Improvement opportunities were identified and addressed with action plans for implementation against expected completion dates and persons responsible. The Risk Management and Control Framework Function performs the follow-up audit to assess and report on the status of these action plans (i.e. implemented, in progress, or pending) on a monthly basis to the Chief Financial Officer.

The Business Ethics and Fraud Committee (BEFC) meets periodically to review all complaints/allegations lodged via the Non-Compliance Hotline or any other avenues (e.g. phone, letter, e-mail) which are in line with the Whistleblowing policy of the Group as described on page 34 of this Corporate Governance & Financial Statement 2017. This Committee ensures an investigation is conducted when needed, reviews the investigation report and decides on the next course of action based on the nature of the violation. All fraud cases, if any, are also reported to Nestlé S.A. by the Nestlé Internal Audit.

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

The Board has received assurances from the Chief Executive Officer and Chief Financial Officer 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 AUDITOR

The external auditor has reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Recommended Practice Guide (RPG) 5 (Revised 2015), 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 financial year ended 31 December 2017 and reported to the Board that nothing has come to their attention that causes 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. RPG 5 (Revised 2015) does not require the external auditor 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 20 February 2018.

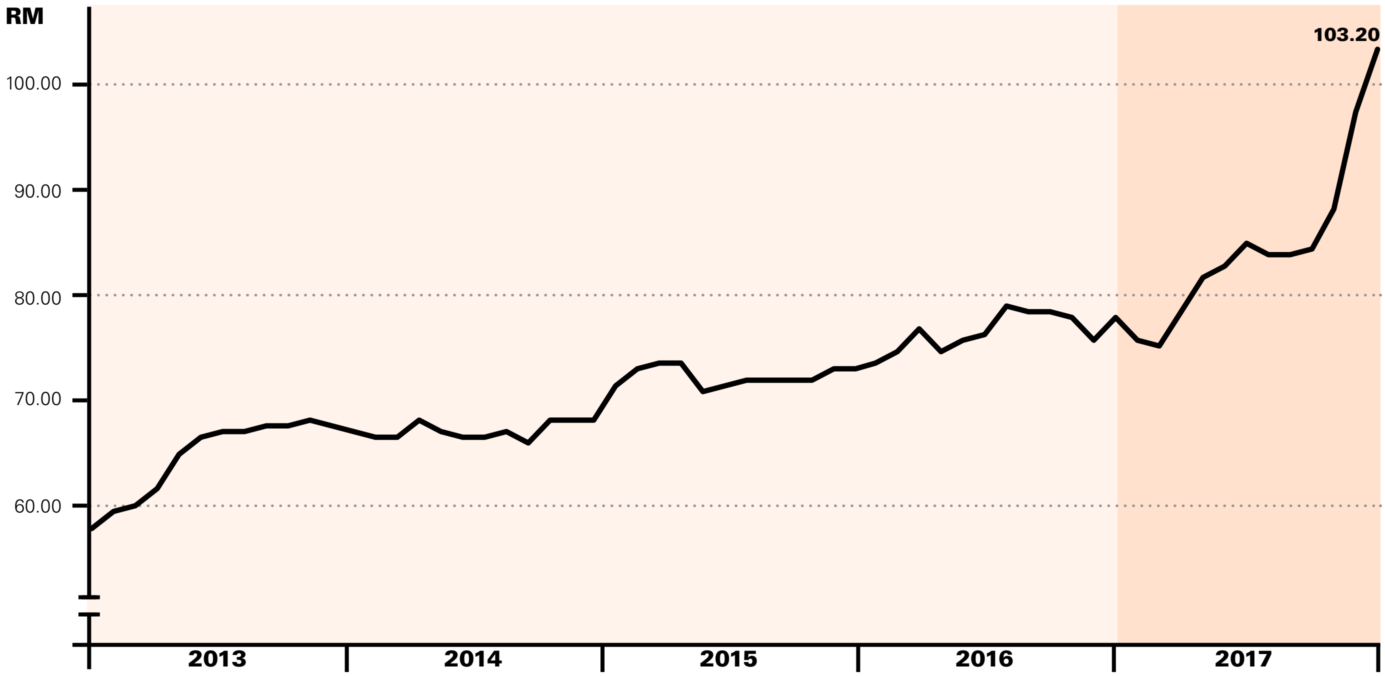
Financial Calendar

DIVIDENDS		
First Interim	- announced	- 21 August 2017
	- record date	- 8 September 2017
	- paid	- 21 September 2017
Second Interim	- announced	- 7 November 2017
	- record date	- 23 November 2017
	- paid	- 14 December 2017
Final	- announced	- 20 February 2018
	- record date	- 15 May 2018
	- payable	- 31 May 2018
ANNUAL GENERAL MEETING		- 26 April 2018

Share Performance

	CALENDAR YEAR				
	2017	2016	2015	2014	2013
During the year					
Highest - RM	**103.20**	81.80	75.50	69.48	69.50
Lowest - RM	**74.12**	73.00	68.50	63.50	58.10

SHARE PRICES (BURSA MALAYSIA) - CLOSE



Group Financial Highlights

		2017	2016	+ / (-)
Turnover	(RM'000)	**5,260,490**	5,063,506	3.9%
Earnings / Cash Flow				
Profit before tax	(RM'000)	**814,129**	766,494	6.2%
% of turnover		**15.5%**	15.1%	
Profit after tax and minority interest	(RM'000)	**645,795**	637,127	1.4%
% of turnover		**12.3%**	12.6%	
Dividends paid & proposed (net)	(RM'000)	**644,875**	633,150	1.9%
Depreciation, amortisation and impairment	(RM'000)	**133,099**	138,040	
Cash flow (net profit + depreciation + amortisation)	(RM'000)	**778,894**	775,167	
Capital expenditure	(RM'000)	**164,455**	123,136	
Shareholders' funds	(RM'000)	**639,928**	647,221	
Personnel	(no.)	**5,338**	5,505	
Factories	(no.)	**7**	8	
Per Share				
Market price[1]	(RM)	**103.20**	78.20	
Earnings[2]	(sen)	**275.39**	271.70	
Price earnings ratio		**37.47**	28.78	
Dividend (net)	(sen)	**275.00**	270.00	
Dividend yield	(%)	**2.7**	3.5	
Dividend cover[2]	(no.)	**1.0**	1.0	
Shareholders' funds	(RM)	**2.73**	2.76	
Net tangible assets[3]	(RM)	**2.46**	2.49	

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

		2017 RM'000	2016 RM'000	2015 RM'000	2014 RM'000	2013 RM'000
Turnover		**5,260,490**	5,063,506	4,837,957	4,808,933	4,787,925
Earnings / Cash Flow						
Profit before tax		**814,129**	766,494	727,711	701,187	719,054
% of turnover		**15.5%**	15.1%	15.0%	14.6%	15.0%
Profit after tax and minority interest		**645,795**	637,127	590,733	550,384	561,701
% of turnover		**12.3%**	12.6%	12.2%	11.4%	11.7%
Dividends paid & proposed (net)		**644,875**	633,150	609,700	551,075	551,075
Depreciation of fixed assets		**133,099**	138,040	125,845	112,210	108,971
Cash flow (net profit + depreciation + amortisation)		**778,894**	775,167	716,578	662,594	670,672
% of turnover		**14.8%**	15.3%	14.8%	13.8%	14.0%
Capital expenditure		**164,455**	123,136	191,184	361,008	212,217
Employment of Assets						
Fixed assets (net)		**1,373,652**	1,353,050	1,369,874	1,293,757	1,046,463
Associated company		**4,709**	4,224	4,114	3,631	3,619
Intangible assets		**61,986**	62,400	62,814	61,024	61,024
Deferred tax assets		**19,244**	20,155	11,068	27,958	25,775
Receivables, deposits & prepayments		**24,283**	24,745	25,048	23,576	21,866
Net current (liabilities)/assets		**(548,946)**	(546,807)	(509,215)	(412,734)	(141,875)
Total		**934,928**	917,767	963,703	997,212	1,016,872
Financed by						
Share capital		**267,500**	234,500	234,500	234,500	234,500
Reserves		**372,428**	412,721	474,096	542,637	581,944
Total Shareholders' funds		**639,928**	647,221	708,596	777,137	816,444
Deferred taxation		**120,987**	91,260	77,539	67,522	82,748
Retirement benefit liabilities		**89,749**	86,140	81,117	62,486	25,337
Borrowings		**84,264**	93,146	96,451	90,067	92,343
Total		**934,928**	917,767	963,703	997,212	1,016,872
Per Share						
Market price[1]	(RM)	**103.20**	78.20	73.40	68.50	68.00
Earnings[2]	(sen)	**275.39**	271.70	251.91	234.71	239.53
Price earnings ratio		**37.47**	28.78	29.14	29.18	28.39
Dividend (net)	(sen)	**275.00**	270.00	260.00	235.00	235.00
Dividend yield	(%)	**2.7**	3.5	3.5	3.4	3.5
Dividend cover[2]	(no.)	**1.0**	1.0	1.0	1.0	1.0
Shareholders' funds	(RM)	**2.73**	2.76	3.02	3.31	3.48
Net tangible assets[3]	(RM)	**2.46**	2.49	2.75	3.05	3.22
Personnel	(no.)	**5,338**	5,505	5,578	5,702	5,847
Factories	(no.)	**7**	8	8	7	7

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.

Financial Performance

TURNOVER (RM MILLION)

EARNINGS PER SHARE (SEN)

PRE-TAX PROFIT (RM MILLION)

NET DIVIDEND PER SHARE (SEN)

Directors' Report
for the year ended 31 December 2017

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 2017.

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 5 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 5 to the financial statements.

Results

	Group RM'000	Company RM'000
Profit for the year attributable to owners of the Company	645,795	643,675

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 130 sen per ordinary share, totalling RM304,850,000 in respect of the financial year ended 31 December 2016 on 8 June 2017;

ii) a first interim dividend of 70 sen per ordinary share, totalling RM164,150,000 in respect of the financial year ended 31 December 2017 on 21 September 2017; 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 2017 on 14 December 2017.

The Directors recommended a final dividend of 135 sen per ordinary share, totalling RM316,575,000 in respect of the financial year ended 31 December 2017.

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' Frits van Dijk	
Dato' Mohd. Rafik bin Shah Mohamad	
Mr Alois Hofbauer	Mr Martin Peter Kruegel
Mr Martin Peter Kruegel	Mr Alois Hofbauer
Tan Sri Datuk (Dr.) Rafiah binti Salim	
Tan Sri Datuk Yong Poh Kon	
Toh Puan Dato' Seri Hajjah Dr. Aishah Ong	

Directors' interests in shares

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

	Number of ordinary shares			
	At 1.1.2017	**Acquired**	**Sold**	**At 31.12.2017**
Shareholdings in which Directors have direct interest				
Interests in the Company				
Dato' Frits van Dijk	8,000	-	-	8,000

	Number of ordinary shares of CHF0.1 each			
	At 1.1.2017	**Acquired**	**Sold**	**At 31.12.2017**
Interests in Nestlé S.A., the holding company				
Dato' Frits van Dijk	218,200	-	43,200	175,000
Mr Alois Hofbauer	8,730	1,685	2,800	7,615
Mr Martin Peter Kruegel	2,381	463	-	2,844

None of the other Directors holding office at 31 December 2017 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 indemnity given to and insurance effected for Directors of the Company is RM4,149,000 and RM41,965,000 respectively. The total amount of premium paid for the Directors' and Officers' Liability Insurance by the Group was RM16,786.

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.

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.

Other statutory information (continued)

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, the financial performance of the Group and of the Company for the financial year ended 31 December 2017 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, have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in note 15 to the financial statements.

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

....

Alois Hofbauer
Chief Executive Officer

....

Martin Peter Kruegel
Chief Financial Officer

Petaling Jaya, Malaysia

28 February 2018

Statements of Financial Position
as at 31 December 2017

		Group		Company	
	Note	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Assets					
Property, plant and equipment	3	**1,373,652**	1,353,050	**-**	-
Intangible assets	4	**61,986**	62,400	**-**	-
Investments in subsidiaries	5	**-**	-	**188,022**	188,022
Investment in an associate	6	**4,709**	4,224	**3,000**	3,000
Deferred tax assets	7	**19,244**	20,155	**-**	-
Trade and other receivables	8	**24,283**	24,745	**-**	-
Total non-current assets		**1,483,874**	1,464,574	**191,022**	191,022
Trade and other receivables	8	**580,848**	544,307	**393,354**	382,305
Inventories	9	**467,316**	455,337	**-**	-
Current tax assets		**12,333**	6,396	**-**	433
Cash and cash equivalents	10	**12,615**	23,996	**-**	-
Total current assets		**1,073,112**	1,030,036	**393,354**	382,738
Total assets		**2,556,986**	2,494,610	**584,376**	573,760
Equity					
Share capital		**267,500**	234,500	**267,500**	234,500
Reserves		**(9,172)**	43,896	**-**	33,000
Retained earnings		**381,600**	368,825	**315,426**	304,901
Total equity attributable to owners of the Company	11	**639,928**	647,221	**582,926**	572,401
Liabilities					
Loans and borrowings	12	**84,264**	93,146	**-**	-
Employee benefits	13	**89,749**	86,140	**-**	-
Deferred tax liabilities	7	**120,987**	91,260	**-**	-
Total non-current liabilities		**295,000**	270,546	**-**	-
Loans and borrowings	12	**305,631**	183,961	**-**	-
Trade and other payables	14	**1,296,619**	1,392,780	**1,425**	1,359
Current tax liabilities		**19,808**	102	**25**	-
Total current liabilities		**1,622,058**	1,576,843	**1,450**	1,359
Total liabilities		**1,917,058**	1,847,389	**1,450**	1,359
Total equity and liabilities		**2,556,986**	2,494,610	**584,376**	573,760

The notes on pages 55 to 102 are an integral part of these financial statements.

Statements of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2017

		Group		Company	
		2017	2016	2017	2016
	Note	RM'000	RM'000	RM'000	RM'000
Revenue		**5,260,490**	5,063,506	**645,175**	633,450
Cost of sales		**(3,330,141)**	(3,066,051)	**-**	-
Gross profit		**1,930,349**	1,997,455	**645,175**	633,450
Other income		**5,056**	3,623	**-**	-
Selling and distribution expenses		**(922,930)**	(1,025,937)	**-**	-
Administrative expenses		**(156,335)**	(164,034)	**(2,906)**	(3,084)
Other expenses		**(8,238)**	(12,327)	**(67)**	-
Results from operating activities	15	**847,902**	798,780	**642,202**	630,366
Finance income		**1,443**	1,140	**2,428**	2,511
Finance costs		**(36,001)**	(33,836)	**-**	-
Net finance (costs)/income		**(34,558)**	(32,696)	**2,428**	2,511
Share of profit of an equity accounted associate, net of tax		**785**	410	**-**	-
Profit before tax		**814,129**	766,494	**644,630**	632,877
Income tax expense	16	**(168,334)**	(129,367)	**(955)**	(493)
Profit for the year		**645,795**	637,127	**643,675**	632,384
Other comprehensive (expense)/income, net of tax					
Item that is or may be reclassified subsequently to profit or loss					
Cash flow hedge		**(20,068)**	(65,080)	**-**	-
Item that will not be reclassified subsequently to profit or loss					
Remeasurement of defined benefit liability		**130**	(272)	**-**	-
Other comprehensive expense for the year, net of tax	17	**(19,938)**	(65,352)	**-**	-
Total comprehensive income for the year		**625,857**	571,775	**643,675**	632,384
Basic and diluted earnings per ordinary share (sen)	18	**275**	272		

The notes on pages 55 to 102 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

		<-----Attributable to owners of the Company----->				
		<-----Non-distributable----->			Distributable	
Group	**Note**	**Share capital RM'000**	**Share premium RM'000**	**Hedging reserve RM'000**	**Retained earnings RM'000**	**Total equity RM'000**
At 1 January 2016		234,500	33,000	75,976	365,120	708,596
Cash flow hedge		-	-	(65,080)	-	(65,080)
Remeasurement of defined benefit liability		-	-	-	(272)	(272)
Other comprehensive expense for the year	17	-	-	(65,080)	(272)	(65,352)
Profit for the year		-	-	-	637,127	637,127
Total comprehensive (expense)/income for the year		-	-	(65,080)	636,855	571,775
Dividends to owners of the Company	19	-	-	-	(633,150)	(633,150)
Total transactions with owners of the Company		-	-	-	(633,150)	(633,150)
At 31 December 2016/1 January 2017		**234,500**	**33,000**	**10,896**	**368,825**	**647,221**
Cash flow hedge		**-**	**-**	**(20,068)**	**-**	**(20,068)**
Remeasurement of defined benefit liability		**-**	**-**	**-**	**130**	**130**
Other comprehensive (expense)/income for the year	17	**-**	**-**	**(20,068)**	**130**	**(19,938)**
Profit for the year		**-**	**-**	**-**	**645,795**	**645,795**
Total comprehensive (expense)/income for the year		**-**	**-**	**(20,068)**	**645,925**	**625,857**
Dividends to owners of the Company	19	**-**	**-**	**-**	**(633,150)**	**(633,150)**
Total transactions with owners of the Company		**-**	**-**	**-**	**(633,150)**	**(633,150)**
Transfer in accordance with Section 618(2) of the Companies Act 2016*		**33,000**	**(33,000)**	**-**	**-**	**-**
At 31 December 2017		**267,500**	**-**	**(9,172)**	**381,600**	**639,928**
		Note 11		Note 11		

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

The notes on pages 55 to 102 are an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2017

		<---------------Attributable to owners of the Company----------->			
		Non-distributable		Distributable	
Company	**Note**	**Share capital RM'000**	**Share premium RM'000**	**Retained earnings RM'000**	**Total equity RM'000**
At 1 January 2016		234,500	33,000	305,667	573,167
Profit and total comprehensive income for the year		-	-	632,384	632,384
Dividends to owners of the Company	19	-	-	(633,150)	(633,150)
Total transactions with owners of the Company		-	-	(633,150)	(633,150)
At 31 December 2016/1 January 2017		**234,500**	**33,000**	**304,901**	**572,401**
Profit and total comprehensive income for the year		**-**	**-**	**643,675**	**643,675**
Dividends to owners of the Company	19	**-**	**-**	**(633,150)**	**(633,150)**
Total transactions with owners of the Company		**-**	**-**	**(633,150)**	**(633,150)**
Transfer in accordance with Section 618(2) of the Companies Act 2016*		**33,000**	**(33,000)**	**-**	**-**
At 31 December 2017		**267,500**	**-**	**315,426**	**582,926**
		Note 11			

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

The notes on pages 55 to 102 are an integral part of these financial statements.

Statements of Cash Flows
for the year ended 31 December 2017

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash flows from operating activities					
Profit before tax		**814,129**	766,494	**644,630**	632,877
Adjustments for:					
Amortisation of intangible assets	4	**414**	414	**-**	-
Depreciation on property, plant and equipment	3	**130,887**	132,779	**-**	-
Dividend income		**-**	-	**(645,175)**	(633,450)
Expenses related to defined benefit plans	13	**3,780**	4,665	**-**	-
Finance costs		**36,001**	33,836	**-**	-
Finance income		**(1,443)**	(1,140)	**(2,428)**	(2,511)
Gain on disposal of property, plant and equipment	15	**(184)**	(580)	**-**	-
Impairment on property, plant and equipment	3	**1,798**	4,847	**-**	-
Property, plant and equipment written off		**203**	220	**-**	-
Share-based payments	15	**4,778**	5,248	**-**	-
Share of profit of an equity accounted associate, net of tax		**(785)**	(410)	**-**	-
Unrealised foreign exchange differences	15	**(378)**	4,439	**-**	-
Operating profit/(loss) before changes in working capital		**989,200**	950,812	**(2,973)**	(3,084)
Change in inventories		**(11,979)**	(41,075)	**-**	-
Change in trade and other payables		**(108,829)**	180,750	**66**	(173)
Change in trade and other receivables		**(47,246)**	(22,655)	**(11,049)**	1,310
Cash generated from/(used in) operations		**821,146**	1,067,832	**(13,956)**	(1,947)
Dividends received from subsidiaries		**-**	-	**644,875**	633,150
Income tax paid		**(117,631)**	(145,046)	**(497)**	(864)
Net cash from operating activities		**703,515**	922,786	**630,422**	630,339

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Cash flows from investing activities					
Acquisition of property, plant and equipment	3	**(164,455)**	(123,136)	**-**	-
Dividends received from associate		**300**	300	**300**	300
Finance income received		**1,443**	1,140	**2,428**	2,511
Proceeds from disposal of property, plant and equipment		**2,003**	2,694	**-**	-
Net cash (used in)/from investing activities		**(160,709)**	(119,002)	**2,728**	2,811
Cash flows from financing activities					
Dividends paid to owners of the Company	19	**(633,150)**	(633,150)	**(633,150)**	(633,150)
Finance costs paid		**(36,001)**	(33,836)	**-**	-
Payment of finance lease liabilities		**(13,090)**	(3,765)	**-**	-
Proceeds from/(Repayment of) borrowings		**277,882**	(204,325)	**-**	-
Net cash used in financing activities		**(404,359)**	(875,076)	**(633,150)**	(633,150)
Net increase/(decrease) in cash and cash equivalents		**138,447**	(71,292)	**-**	-
Cash and cash equivalents at 1 January		**(155,757)**	(84,465)	**-**	-
Cash and cash equivalents at 31 December		**(17,310)**	(155,757)	**-**	-

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 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Cash and bank balances	10	**12,615**	23,996	**-**	-
Bank overdraft	12	**(29,925)**	(179,753)	**-**	-
		(17,310)	(155,757)	**-**	-

The notes on pages 53 to 100 are an integral part of these financial statements.

Notes to the Financial Statements

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

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

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2017 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 2017 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 5 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 28 February 2018.

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, amendments and interpretations 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 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

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

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangement (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associate and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

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

- MFRS 17, *Insurance Contracts*

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

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

The Group plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2018 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018, except for amendments to MFRS 1, 4 and 140 which are not applicable to the Group and the Company. The Group has elected to early adopt MFRS 16, *Leases* which is effective for annual period beginning on or after 1 January 2019.

- from the annual period beginning on 1 January 2019 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2019, except for MFRS 11 and MFRS 16, *Leases* which the Group has elected to early adopt as stated above.

The Group does not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual period beginning on 1 January 2021 as it is not applicable to the Group.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Group and the Company except as mentioned below:

(i) MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*. MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligation. The standard specifies that the revenue is to be recognised when control over the goods or services is transferred to customer, moving from the transfer of risks and rewards.

The Group has assessed that the initial application of MFRS 15 is not expected to have any material financial impacts to the current period and prior period financial statements of the Group and the Company.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

(ii) MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

In order to measure the consequences of this new standard, the Group has performed a review of the business model corresponding to the different portfolios of financial assets and of the characteristics of these financial assets.

In respect to hedge accounting, the Group reviewed the definition of the hedging relationship in line with the risk management activities and policies, with a specific attention to the identification of the components in the pricing of the commodities. The Group has assessed that there is no significant impact on the initial application of MFRS 9 on the derivatives.

In respect of impairment of financial assets, MFRS 9 replaces the "incurred loss" model in MFRS 139 with an "expected credit loss" ("ECL") model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt instruments measured at fair value through other comprehensive income, but not to investments in equity instruments. The Group has assessed the estimated impact that the initial application of MFRS 9 will have on its consolidated financial statements as at 1 January 2018 as below:

Group	As reported at 31 December 2017 RM'000	Estimated adjustments due to adoption of MFRS 9 RM'000	Estimated adjusted opening balance at 1 January 2018 RM'000
Trade and other receivables	605,131	(9,152)	595,979
Retained earnings	381,600	(9,152)	372,448

The retrospective application of MFRS 9 does not require publication of restated 2017 comparative financial statements. Consequently, the Group will recognise any difference between the carrying amount of financial instruments under MFRS 139 and the carrying amount under MFRS 9 in the opening retained earnings (or other equity components) of the accounting period including the date of initial application.

MFRS 9 does not have a significant impact at Company level.

(iii) MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

MFRS 16 introduces a single on-balance-sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

(iii) MFRS 16, *Leases* (continued)

There are recognition exemptions for short term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continue to be classified as finance or operating lease.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 16.

(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 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 note 4 – measurement of the recoverable amounts of cash-generating units.

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.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(i) Subsidiaries (continued)

The Group also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

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

(ii) Loss of control

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

(iii) Associates

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

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

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

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

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 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.

2. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(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 currencies

Foreign currency transactions

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

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

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value 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 available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

(c) Financial instruments

(i) Initial recognition and measurement

A financial asset or a 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 instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised 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.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

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

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

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

(b) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

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

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as 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) or financial liabilities that are specifically designated into this category upon initial recognition.

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

(iii) Hedge accounting

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 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 the ineffective portion is recognised in profit or loss.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Hedge accounting (continued)

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.

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 the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into 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 the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. 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 the profit or loss.

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

2. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment from the date that they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. 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:

• leasehold land	46 – 99 years
• buildings	25 – 50 years
• plant and machinery	10 – 25 years
• tools, furniture and equipment	5 – 8 years
• motor vehicles	5 years
• information systems	3 – 10 years

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

(e) Leased assets

(i) Finance lease

Leases in terms of which the Group or the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

2. Significant accounting policies (continued)

(e) Leased assets (continued)

(i) Finance lease (continued)

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

(ii) Operating lease

Leases, where the Group or the Company does not assume substantially all the risks and rewards of the ownership are classified as operating leases and the leased assets are not recognised on the statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease.

(f) Intangible assets

(i) Goodwill

Goodwill arises 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.

(iii) Amortisation

Goodwill are not amortised but are tested for impairment annually and whenever there is an indication that they 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.

2. Significant accounting policies (continued)

(f) Intangible assets (continued)

(iii) Amortisation (continued)

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) Cash and cash equivalents

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

(i) Impairment

(i) Financial assets

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

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

(ii) Other assets

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

2. Significant accounting policies (continued)

(i) 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.

(j) 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.

2. Significant accounting policies (continued)

(j) Employee benefits (continued)

(iii) Defined benefit plans

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

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

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

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

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

(iv) Termination benefits

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

(v) Share-based payment transactions

Performance Stock Unit Plan ("PSUP")

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

(k) 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.

2. Significant accounting policies (continued)

(k) Provisions (continued)

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.

(l) Revenue and other income

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(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.

(m) Borrowing costs

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

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

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

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

2. Significant accounting policies (continued)

(n) 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.

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.

(o) 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.

(p) 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.

2. Significant accounting policies (continued)

(q) 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 are 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.

3. Property, plant and equipment

Group Cost	Leasehold land RM'000	Buildings RM'000	Plant and machinery, tools, furniture and equipment RM'000	Motor vehicles RM'000	Information systems RM'000	Capital work-in progress RM'000	Total RM'000
At 1 January 2016	97,517	580,662	2,052,603	15,726	93,702	22,181	2,862,391
Additions	-	18,173	84,411	2,901	7,791	9,860	123,136
Disposals	-	-	(8,426)	(914)	(1,299)	-	(10,639)
Written off	-	-	(4,296)	-	(4,096)	-	(8,392)
Transfer in/(out)	-	1,618	17,798	-	629	(20,045)	-
At 31 December 2016/1 January 2017	**97,517**	**600,453**	**2,142,090**	**17,713**	**96,727**	**11,996**	**2,966,496**
Additions	**-**	**12,876**	**106,705**	**974**	**7,213**	**36,687**	**164,455**
Disposals	**-**	**(182)**	**(21,000)**	**(1,461)**	**(478)**	**-**	**(23,121)**
Written off	**-**	**(11)**	**(17,426)**	**-**	**(379)**	**-**	**(17,816)**
Transfer in/(out) *	**-**	**648**	**(25,455)**	**-**	**382**	**(8,809)**	**(33,234)**
At 31 December 2017	**97,517**	**613,784**	**2,184,914**	**17,226**	**103,465**	**39,874**	**3,056,780**

3. Property, plant and equipment (continued)

Group Depreciation and impairment loss	Leasehold land RM'000	Buildings RM'000	Plant and machinery, tools, furniture and equipment RM'000	Motor vehicles RM'000	Information systems RM'000	Capital work-in progress RM'000	Total RM'000
At 1 January 2016							
Accumulated depreciation	16,011	144,038	1,234,759	9,169	67,427	-	1,471,404
Accumulated impairment loss	-	6,284	14,682	-	147	-	21,113
	16,011	150,322	1,249,441	9,169	67,574	-	1,492,517
Depreciation for the year	1,659	17,347	103,346	1,787	8,640	-	132,779
Impairment loss	-	76	4,715	-	56	-	4,847
Disposals	-	-	(6,633)	(624)	(1,268)	-	(8,525)
Written off	-	-	(4,097)	-	(4,075)	-	(8,172)
At 31 December 2016/1 January 2017							
Accumulated depreciation	17,670	161,385	1,327,375	10,332	70,724	-	1,587,486
Accumulated impairment loss	-	6,360	19,397	-	203	-	25,960
	17,670	167,745	1,346,772	10,332	70,927	-	1,613,446
Depreciation for the year	**1,659**	**17,886**	**100,595**	**1,800**	**8,947**	**-**	**130,887**
Impairment loss	**-**	**6**	**1,757**	**-**	**35**	**-**	**1,798**
Disposals	**-**	**(58)**	**(19,789)**	**(1,169)**	**(286)**	**-**	**(21,302)**
Written off	**-**	**(4)**	**(17,233)**	**-**	**(376)**	**-**	**(17,613)**
Transfer out *	**-**	**-**	**(24,088)**	**-**	**-**	**-**	**(24,088)**
At 31 December 2017							
Accumulated depreciation	**19,329**	**179,209**	**1,366,860**	**10,963**	**79,009**	**-**	**1,655,370**
Accumulated impairment loss	**-**	**6,366**	**21,154**	**-**	**238**	**-**	**27,758**
	19,329	**185,575**	**1,388,014**	**10,963**	**79,247**	**-**	**1,683,128**
Carrying amounts							
At 1 January 2016	**81,506**	**430,340**	**803,162**	**6,557**	**26,128**	**22,181**	**1,369,874**
At 31 December 2016/1 January 2017	**79,847**	**432,708**	**795,318**	**7,381**	**25,800**	**11,996**	**1,353,050**
At 31 December 2017	**78,188**	**428,209**	**796,900**	**6,263**	**24,218**	**39,874**	**1,373,652**

* Reclassification to operating lease.

Impairment loss

During the year, the Group has recognised an impairment loss of RM1,798,000 (2016: RM4,847,000) in respect of plant and equipment based on the recoverable amount of the assets.

4. Intangible assets

Group	Goodwill RM'000	Development cost RM'000	Total RM'000
Cost			
At 1 January 2016/31 December 2016/31 December 2017	61,024	2,065	63,089
Amortisation			
At 1 January 2016	-	275	275
Amortisation for the year	-	414	414
At 31 December 2016/1 January 2017	-	689	689
Amortisation for the year	-	414	414
At 31 December 2017	-	1,103	1,103
Carrying amounts			
At 1 January 2016	61,024	1,790	62,814
At 31 December 2016/1 January 2017	61,024	1,376	62,400
At 31 December 2017	61,024	962	61,986

The goodwill relates to the Group's ice-cream business unit. The development cost relates to the enhancement of the Company's SAP HANA 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 4% to 10% per annum (2016: 6% to 10% per annum).
- The unit will continue its operations indefinitely with earnings before interest and tax ("EBIT") terminal growth rate of 1% per annum.
- A discount rate of 7.0% (2016: 7.3%) 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).

5. Investments in subsidiaries

	Company	
	2017	2016
At cost	RM'000	RM'000
Unquoted shares	**188,022**	188,022

Details of the subsidiaries are as follows:

Name of entity	Principal place of business/Country of incorporation	Principal activities	Effective ownership interest and voting interest 2017 %	2016 %
Nestlé Products Sdn. Bhd.	Malaysia	Marketing and sales of ice-cream, powdered milk and drinks, liquid milk and juices, instant coffee and other beverages, chocolate confectionery products, instant noodles, culinary products, cereals, yogurt and related products	**100**	100
Nestlé Manufacturing (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing and sales of ice-cream, powdered milk and drinks, liquid milk and juices, instant coffee and other beverages, instant noodles, culinary products, cereals, yogurt and related products	**100**	100
Nestlé Asean (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing and sales of chocolate confectionery products	**100**	100
Nestlé Foods (Malaysia) Sdn. Bhd.	Malaysia	Ceased operations	**100**	100

6. Investment in an associate

	Group		Company	
	2017	2016	2017	2016
At cost	RM'000	RM'000	RM'000	RM'000
Unquoted shares	**3,000**	3,000	**3,000**	3,000
Share of post-acquisition reserves	**1,709**	1,224	**-**	-
	4,709	4,224	**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 2017 %	2016 %
Nihon Canpack (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing and sales of canned beverages	**20**	20

6. Investment in an associate (continued)

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	2017 RM'000	2016 RM'000
Summarised financial information		
As at 31 December		
Non-current assets	**33,940**	34,730
Current assets	**21,820**	22,342
Current liabilities	**32,215**	35,950
Net assets	**23,545**	21,122
Year ended 31 December		
Profit/Total comprehensive income for the year	**3,925**	2,050
Included in the total comprehensive income is:		
Revenue	**214,434**	187,900
Group's share of results for the year ended 31 December		
Group's share of profit/total comprehensive income	**785**	410
Other information		
Dividends received by the Group	**300**	300

7. Deferred tax assets/(liabilities)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Property, plant and equipment	**-**	-	**(142,164)**	(134,400)	**(142,164)**	(134,400)
Employee benefit plans	**23,774**	23,815	**-**	-	**23,774**	23,815
Provisions	**13,750**	23,136	**-**	-	**13,750**	23,136
Hedging reserve	**2,897**	-	**-**	(3,440)	**2,897**	(3,440)
Unutilised tax incentives	**-**	19,784	**-**	-	**-**	19,784
Tax assets/(liabilities)	**40,421**	66,735	**(142,164)**	(137,840)	**(101,743)**	(71,105)
Set off of tax	**(21,177)**	(46,580)	**21,177**	46,580	**-**	-
Net tax assets/(liabilities)	**19,244**	20,155	**(120,987)**	(91,260)	**(101,743)**	(71,105)

7. Deferred tax assets/(liabilities) (continued)

Movement in temporary differences during the year

Group	At 1.1.2016 RM'000	Recognised in profit or loss (note 16) RM'000	Recognised in other comprehensive income (note 17) RM'000	At 31.12.2016/ 1.1.2017 RM'000	Recognised in profit or loss (note 16) RM'000	Recognised in other comprehensive income (note 17) RM'000	At 31.12.2017 RM'000
Property, plant and equipment	(120,758)	(13,642)	-	(134,400)	(7,764)	-	(142,164)
Employee benefit plans	23,729	-	86	23,815	-	(41)	23,774
Provisions	15,597	7,539	-	23,136	(9,386)	-	13,750
Hedging reserve	(23,992)	-	20,552	(3,440)	-	6,337	2,897
Unutilised tax incentives	38,953	(19,169)	-	19,784	(19,784)	-	-
	(66,471)	(25,272)	20,638	(71,105)	(36,934)	6,296	(101,743)

8. Trade and other receivables

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Non-current					
Loans to employees		**24,283**	24,745	**-**	-
Current					
Trade					
Trade receivables		**264,336**	209,855	**-**	-
Less: Impairment loss		**(12,194)**	(16,211)	**-**	-
		252,142	193,644	**-**	-
Amounts due from related companies	8.1	**147,777**	173,646	**-**	-
Amount due from an associate	8.1	**1,058**	3,564	**-**	-
Designated as hedging instruments					
- Commodity futures		**1,847**	8,772	**-**	-
- Forward exchange contracts		**9,507**	30,450	**-**	-
		412,331	410,076	**-**	-
Non-trade					
Amounts due from subsidiaries	8.2	**-**	-	**393,246**	382,198
Amounts due from related companies	8.1	**58,660**	37,024	**-**	-
Other receivables, deposits and prepayments	8.3	**109,857**	97,207	**108**	107
		168,517	134,231	**393,354**	382,305
		580,848	544,307	**393,354**	382,305
		605,131	569,052	**393,354**	382,305

8. Trade and other receivables (continued)

8.1 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 3.07% to 3.25% (2016: 3.20% to 3.63%) per annum and repayable on demand.

8.2 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 RM76,671,000 (2016: RM77,348,000) which is subject to interest at 3.07% to 3.13% (2016: 3.03% to 3.31%) per annum.

8.3 Other receivables, deposits and prepayments

Included in other receivables, deposits and prepayments of the Group are loans to employees of RM13,154,000 (2016: RM12,999,000) which are unsecured and interest free and down payment to vendors of RM13,501,000 (2016: RM9,773,000).

9. Inventories

	Group	
	2017 RM'000	**2016 RM'000**
Raw and packaging materials	**193,127**	174,184
Work-in-progress	**29,886**	30,131
Finished goods	**215,147**	224,358
Spare parts	**29,156**	26,664
	467,316	455,337
Recognised in profit or loss		
- Inventories recognised as cost of sales	**2,992,944**	2,779,209

10. Cash and cash equivalents

	Group	
	2017 RM'000	**2016 RM'000**
Cash and bank balances	**12,615**	23,996

11. Capital and reserves

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

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

Note 1: In accordance with Section 618(2) of the Companies Act 2016, the share premium amounting to RM33,000,000 has become part of the Company's share capital.

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

12. Loans and borrowings

		Group	
	Note	**2017 RM'000**	**2016 RM'000**
Non-current			
Loan from a related company – unsecured	21	**84,264**	84,264
Finance lease liabilities		**-**	8,882
		84,264	93,146
Current			
Finance lease liabilities		**-**	4,208
Bank overdraft – unsecured		**29,925**	179,753
Loan from a related company – unsecured	21	**275,706**	-
		305,631	183,961
		389,895	277,107

12. Loans and borrowings (continued)

12.1 Reconciliation of movement of liabilities to cash flows arising from financing activities

Group	At 1 January 2017 RM'000	Payment of financial lease liabilities RM'000	Additional loans obtained during the year RM'000	Foreign exchange movement RM'000	At 31 December 2017 RM'000
Loan from a related company	84,264	-	277,882	(2,176)	359,970
Finance lease liabilities	13,090	(13,090)	-	-	-
	97,354	(13,090)	277,882	(2,176)	359,970

13. Employee benefits

13.1 Retirement benefits

	Group	
	2017 RM'000	2016 RM'000
Net defined benefit liability/Total employee benefits liabilities	**89,749**	86,140

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.

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

Funding

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

NMGRS expects to pay RM9,175,000 in contributions to defined benefit plans in 2018.

13. Employee benefits (continued)

13.1 Retirement benefits (continued)

Movement in net defined benefit liability

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

Group	Defined benefit obligation RM'000	Fair value of plan assets RM'000	Net defined benefit liability RM'000
At 1 January 2017	**179,072**	**(92,932)**	**86,140**
Included in profit or loss			
Interest cost/(income)	**9,838**	**(4,885)**	**4,953**
Curtailment gain	**(1,173)**	**-**	**(1,173)**
	8,665	**(4,885)**	**3,780**
Included in other comprehensive income			
Remeasurement loss:			
Actuarial loss arising from			
- Experience adjustments	**(1,147)**	**-**	**(1,147)**
Return on plan assets, excluding interest income	**-**	**976**	**976**
	(1,147)	**976**	**(171)**
Other			
Benefits paid	**(85,084)**	**85,084**	**-**
At 31 December 2017	**101,506**	**(11,757)**	**89,749**
At 1 January 2016	186,507	(105,390)	81,117
Included in profit or loss			
Interest cost/(income)	10,262	(5,597)	4,665
	10,262	(5,597)	4,665
Included in other comprehensive income			
Remeasurement loss:			
Actuarial loss arising from			
- Experience adjustments	(1,361)	-	(1,361)
Return on plan assets, excluding interest income	-	1,719	1,719
	(1,361)	1,719	358
Other			
Benefits paid	(16,336)	16,336	-
At 31 December 2016	179,072	(92,932)	86,140

13. Employee benefits (continued)

13.1 Retirement benefits (continued)

Plan assets

Plan assets comprise:

	Group	
	2017 RM'000	**2016 RM'000**
Government bonds	**10,164**	24,784
Corporate bonds	**-**	25,000
Fixed deposit	**-**	40,000
Cash and cash equivalents	**453**	45
Others	**1,140**	3,103
	11,757	92,932

Based on the latest Assets Liability study, the strategic assets allocation is 86% in government bond and 14% of other investments (2016: 27% in government bond and 73% of other investments).

Defined benefit obligation

Actuarial assumptions

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

	Group	
	2017	**2016**
Discount rate	**5.75%**	5.75%

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

At 31 December 2017, the weighted-average duration of the defined benefit obligation was 9.6 years.

13. Employee benefits (continued)

13.1 Retirement benefits (continued)

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
2017		
Discount rate (0.5% movement)	**(4,207)**	**4,539**
Future pension growth (0.5% movement)	**506**	**(506)**
Future mortality (1 year movement)	**(2,606)**	**2,562**
2016		
Discount rate (0.5% movement)	(7,441)	8,030
Future pension growth (0.5% movement)	892	(892)
Future mortality (1 year movement)	(4,446)	4,362

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

14. Trade and other payables

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Trade					
Trade payables		**903,819**	985,027	**158**	204
Amounts due to related companies	14.1	**114,052**	95,088	**-**	-
Amount due to an associate	14.1	**5,817**	10,794	**-**	-
Designated as hedging instruments					
- Commodity futures		**5,529**	11,846	**-**	-
- Forward exchange contracts		**36,058**	13,613	**-**	-
		1,065,275	1,116,368	**158**	204
Non-trade					
Amounts due to related companies	14.1	**44,864**	61,772	**-**	-
Other payables		**68,971**	44,348	**5**	-
Accrued expenses		**117,509**	170,292	**1,262**	1,155
		231,344	276,412	**1,267**	1,155
		1,296,619	1,392,780	**1,425**	1,359

14. Trade and other payables (continued)

14.1 Amounts due to related companies and an associate

The trade payables due to related companies and an associate are subject to the normal trade terms. The non-trade payables due to related companies are unsecured, interest free and repayable on demand, except for advances from related companies of RM43,746,000 (2016: RM61,200,000) which is subject to interest at 3.07% to 3.23% (2016: 3.03% to 3.31%) per annum.

15. Results from operating activities

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Results from operating activities is arrived at after charging:					
Auditors' remuneration					
- Statutory audit					
KPMG in Malaysia		**351**	351	**79**	79
- Other services					
KPMG in Malaysia		**113**	174	**113**	114
Affiliates of KPMG in Malaysia		**29**	24	**2**	1
Amortisation of intangible assets	4	**414**	414	**-**	-
Depreciation of property, plant and equipment	3	**130,887**	132,779	**-**	-
Impairment of property, plant and equipment	3	**1,798**	4,847	**-**	-
Net foreign exchange loss					
- Realised		**-**	-	**1**	4
- Unrealised		**-**	4,439	**-**	-
Net impairment loss on trade receivables		**1,470**	6,500	**-**	-
Personnel expenses (including key management personnel)					
- Contributions to Employees Provident Fund		**57,628**	54,988	**-**	-
- Share-based payments		**4,778**	5,248	**-**	-
- Wages, salaries and others		**523,586**	501,816	**-**	-
Property, plant and equipment written off		**203**	220	**-**	-
Rental expenses on land and buildings		**62,026**	59,534	**-**	-
Restructuring and rationalisation cost		**6,023**	4,000	**-**	-
and after crediting:					
Dividend income from					
- Subsidiaries (unquoted)		**-**	-	**644,875**	633,150
- Associate (unquoted)		**-**	-	**300**	300
Gain on disposal of property, plant and equipment		**184**	580	**-**	-
Net foreign exchange gain					
- Realised		**6,816**	47,949	**-**	-
- Unrealised		**378**	-	**-**	-

16. Income tax expense

	Group		Company	
	2017 RM'000	2016 RM'000	**2017 RM'000**	2016 RM'000
Recognised in the profit or loss				
Income tax expense	**168,334**	129,367	**955**	493
Major components of income tax expense include:				
Current tax expense				
Malaysian - current year	**132,888**	104,393	**582**	228
- prior year	**(1,488)**	(298)	**373**	265
Total current tax recognised in profit or loss	**131,400**	104,095	**955**	493
Deferred tax expense				
Origination of temporary differences	**34,839**	71,817	**-**	-
Under/(Over) provided in prior years	**2,095**	(46,545)	**-**	-
Total deferred tax recognised in profit or loss	**36,934**	25,272	**-**	-
Total income tax expense	**168,334**	129,367	**955**	493
Reconciliation of tax expense				
Profit for the year	**645,795**	637,127	**643,675**	632,384
Total income tax expense	**168,334**	129,367	**955**	493
Profit excluding tax	**814,129**	766,494	**644,630**	632,877
Income tax calculated using Malaysian tax rate of 24%	**195,391**	183,959	**154,711**	151,890
Non-deductible expenses	**3,339**	4,279	**713**	366
Tax exempt income	**-**	-	**(154,842)**	(152,028)
Tax incentives	**(22,352)**	(15,904)	**-**	-
Reduction of income tax rate based on the increase in chargeable business income*	**(5,605)**	-	**-**	-
Other items	**(3,046)**	3,876	**-**	-
	167,727	176,210	**582**	228
Under/(Over) provided in prior years				
- Current tax	**(1,488)**	(298)	**373**	265
- Deferred tax	**2,095**	(46,545)	**-**	-
	607	(46,843)	**373**	265
	168,334	129,367	**955**	493

* 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 2017 and YA 2018.

17. Other comprehensive expense

Group	2017 Before tax RM'000	2017 Tax benefit/ (expense) RM'000	2017 Net of tax RM'000	2016 Before tax RM'000	2016 Tax benefit RM'000	2016 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	**(33,025)**	**7,926**	**(25,099)**	(63,577)	15,259	(48,318)
- Reclassification adjustments for losses included in profit or loss	**6,620**	**(1,589)**	**5,031**	(22,055)	5,293	(16,762)
	(26,405)	**6,337**	**(20,068)**	(85,632)	20,552	(65,080)
Item that will not be reclassified subsequently to profit or loss						
Remeasurement of defined benefit liability	**171**	**(41)**	**130**	(358)	86	(272)
	(26,234)	**6,296**	**(19,938)**	(85,990)	20,638	(65,352)

18. Earnings per ordinary share – basic and diluted

The calculation of earnings per ordinary share for the year ended 31 December 2017 was based on the profit attributable to ordinary shareholders of RM645.8 million (2016: RM637.1 million) and 234.5 million (2016: 234.5 million) ordinary shares outstanding during the year.

19. Dividends

Dividends recognised by the Company are:

		Sen per share	Total amount RM'000	Date of payment
2017				
Final 2016 ordinary		130	**304,850**	8 June 2017
Interim 2017 ordinary	- first	70	**164,150**	21 September 2017
	- second	70	**164,150**	14 December 2017
Total amount			**633,150**	
2016				
Special 2015 ordinary		20	46,900	2 June 2016
Final 2015 ordinary		110	257,950	2 June 2016
Interim 2016 ordinary	- first	70	164,150	29 September 2016
	- second	70	164,150	2 December 2016
Total amount			633,150	

19. Dividends (continued)

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 2017 ordinary	**135**	**316,575**

20. Operating segments

The Group has two operating segments – Food and beverages and Others which include Nutrition, Nestlé Professional, Nespresso and Nestlé Health Science (2016: Nutrition, Nestlé Professional, Nespresso and Nestlé Health Science).

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

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

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

	Food and beverages		Others		Total	
Group	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Segment revenue and results						
Revenue	**4,225,676**	4,039,140	**1,034,814**	1,024,366	**5,260,490**	5,063,506
Operating profit	**698,548**	644,557	**149,411**	153,907	**847,959**	798,464
Included in the measure of segment operating profit are:						
Depreciation on property, plant and equipment	**116,055**	119,772	**14,832**	13,007	**130,887**	132,779

20. Operating segments (continued)

Reconciliations of reportable segment profit or loss

	Group	
	2017 RM'000	2016 RM'000
Profit or loss		
Total profit for reportable segments	**847,959**	798,464
Finance costs	**(36,001)**	(33,836)
Finance income	**1,443**	1,140
Other unallocated (expenses)/income	**(57)**	316
Share of profit of an associate not included in reportable segments	**785**	410
Consolidated profit before tax	**814,129**	766,494

21. Financial instruments

21.1 Categories of financial instruments

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

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

2017 Financial assets	Carrying amount RM'000	L&R/(OL) RM'000	Derivatives designated as hedging instruments RM'000
Group			
Trade and other receivables	**597,651**	**586,297**	**11,354**
Cash and cash equivalents	**12,615**	**12,615**	**-**
	610,266	**598,912**	**11,354**
Company			
Trade and other receivables	**393,354**	**393,354**	**-**
Financial liabilities			
Group			
Loans and borrowings	**(389,895)**	**(389,895)**	**-**
Trade and other payables	**(1,296,619)**	**(1,255,032)**	**(41,587)**
	(1,686,514)	**(1,644,927)**	**(41,587)**
Company			
Trade and other payables	**(1,425)**	**(1,425)**	**-**

21. Financial instruments (continued)

21.1 Categories of financial instruments (continued)

2016 Financial assets	Carrying amount RM'000	L&R/(OL) RM'000	Derivatives designated as hedging instruments RM'000
Group			
Trade and other receivables	559,560	520,338	39,222
Cash and cash equivalents	23,996	23,996	-
	583,556	544,334	39,222
Company			
Trade and other receivables	382,305	382,305	-
Financial liabilities			
Group			
Loans and borrowings	(277,107)	(277,107)	-
Trade and other payables	(1,392,780)	(1,367,321)	(25,459)
	(1,669,887)	(1,644,428)	(25,459)
Company			
Trade and other payables	(1,359)	(1,359)	-

21.2 Net gains and losses arising from financial instruments

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Net (losses)/gains on:				
Fair value through profit or loss				
- Designated upon initial recognition	**(6,508)**	45,584	**-**	-
Loans and receivables	**(27)**	(5,434)	**2,428**	2,511
Financial liabilities measured at amortised cost	**(31,670)**	(28,067)	**(1)**	-
	(38,205)	12,083	**2,427**	2,511

21. Financial instruments (continued)

21.3 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

21.4 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 its third party receivables (domestic and foreign). 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.

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.

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.

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 RM60,169,000 (2016: RM51,612,000).

21. Financial instruments (continued)

21.4 Credit risk (continued)

Receivables (continued)

Impairment losses

The ageing of trade receivables as at the end of the reporting period was:

Group	Gross RM'000	Individual impairment RM'000	Net RM'000
2017			
Not past due	**205,195**	**-**	**205,195**
Past due 0 – 30 days	**35,187**	**-**	**35,187**
Past due 31 – 120 days	**15,847**	**(4,087)**	**11,760**
Past due more than 120 days	**8,107**	**(8,107)**	**-**
	264,336	**(12,194)**	**252,142**
2016			
Not past due	168,534	-	168,534
Past due 0 – 30 days	12,527	-	12,527
Past due 31 – 120 days	14,367	(1,784)	12,583
Past due more than 120 days	14,427	(14,427)	-
	209,855	(16,211)	193,644

The movements in the allowance for impairment losses on trade receivables during the financial year were:

	Group	
	2017 RM'000	2016 RM'000
At 1 January	**16,211**	9,711
Impairment loss recognised	**1,564**	6,906
Impairment loss reversed	**(94)**	(406)
Impairment loss written off	**(5,487)**	-
At 31 December	**12,194**	16,211

Impairment losses as at the financial year end mainly related to customers that defaulted in payments and their distributorship have been terminated. The Group has taken the necessary steps to recover the outstanding balance through legal actions.

Although some of the receivables are secured by third party financial guarantees, it is impracticable to estimate the fair values of the guarantees obtained.

21. Financial instruments (continued)

21.4 Credit risk (continued)

Receivables (continued)

Impairment losses (continued)

The allowance account in respect of trade receivables is used to record impairment losses. Unless the Group is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

Amounts due from subsidiaries

Risk management objectives, policies and processes for managing the risk

The Group provides unsecured loans and advances to subsidiaries. The Group monitors the results of the subsidiaries 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 a related company.

Impairment losses

The Group does not specifically monitor the ageing of the advances to the subsidiaries and a related company. Impairment losses are provided when there is an indication that the loans and advances to the subsidiaries are not recoverable.

21.5 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.

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.

21. Financial instruments (continued)

21.5 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
2017						
Non-derivative financial liabilities						
Bank overdraft – unsecured	29,925	3.38	29,925	29,925	-	-
Loan from a related company – unsecured	359,970	1.67 – 3.81	372,142	285,569	86,573	-
Advances from related companies	44,864	3.07 – 3.23	44,864	44,864	-	-
Trade and other payables, excluding derivatives	1,210,168	-	1,210,168	1,210,168	-	-
	1,644,927		1,657,099	1,570,526	86,573	-
Derivative financial liabilities/ (assets)						
Forward exchange contracts (gross settled)						
- Outflow	26,551	-	1,080,359	1,080,359	-	-
- Inflow	-	-	(1,053,808)	(1,053,808)	-	-
Commodity futures	3,682	-	3,682	3,682	-	-
	1,675,160		1,687,332	1,600,759	86,573	-

21. Financial instruments (continued)

21.5 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
2016						
Non-derivative financial liabilities						
Finance lease liabilities	13,090	5.00	14,464	4,784	4,390	5,290
Bank overdraft – unsecured	179,753	3.60	179,753	179,753	-	-
Loan from a related company – unsecured	84,264	3.88 – 4.02	90,888	3,312	87,576	-
Advances from related companies	61,200	3.03 – 3.31	61,200	61,200	-	-
Trade and other payables, excluding derivatives	1,306,121	-	1,306,121	1,306,121	-	-
	1,644,428		1,652,426	1,555,170	91,966	5,290
Derivative financial liabilities/ (assets)						
Forward exchange contracts (gross settled)						
- Outflow	-	-	679,743	679,743	-	-
- Inflow	(16,837)	-	(696,580)	(696,580)	-	-
Commodity futures	3,074	-	3,074	3,074	-	-
	1,630,665		1,638,663	1,541,407	91,966	5,290

21.6 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.

21.6.1 Currency risk

The Group is exposed to foreign currency risk on sales and purchases 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").

21. Financial instruments (continued)

21.6 Market risk (continued)

21.6.1 Currency risk (continued)

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 was:

	2017			**2016**		
	Denominated in			**Denominated in**		
	USD	**GBP**	**EUR**	**USD**	**GBP**	**EUR**
Group	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trade receivables	**13,338**	**-**	**-**	6,307	-	-
Trade payables	**(79,570)**	**(20,898)**	**(21,202)**	(124,199)	(17,663)	(13,846)
Intra-group receivables	**109,157**	**-**	**-**	106,763	2,133	283
Intra-group payables	**(57,870)**	**(6,494)**	**(1,253)**	(51,378)	(49)	(210)
Loan from a related company - unsecured	**(275,706)**	**-**	**-**	-	-	-
Commodity futures	**1,718**	**(5,401)**	**-**	5,909	(8,982)	-
Exposure in the statement of financial position	**(288,933)**	**(32,793)**	**(22,455)**	(56,598)	(24,561)	(13,773)
Net contracted foreign exchange contracts	**70,643**	**(14,633)**	**(16,260)**	(177,752)	(26,212)	(12,120)
Net exposure	**(218,290)**	**(47,426)**	**(38,715)**	(234,350)	(50,773)	(25,893)

21. Financial instruments (continued)

21.6 Market risk (continued)

21.6.1 Currency risk (continued)

Currency risk sensitivity analysis

A 10% (2016: 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 ratio, remained constant and ignores any impact of forecasted sales and purchases.

	Group	
	2017 RM'000	**2016 RM'000**
USD	**21,829**	23,435
GBP	**4,743**	5,077
EUR	**3,872**	2,589

A 10% (2016: 10%) weakening of RM against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

21.6.2 Interest rate risk

Interest rate risk comprises interest price risk that results from borrowing at fixed rates and interest cash flow risk that results from borrowings at variable 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 Center ("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.

21. Financial instruments (continued)

21.6 Market risk (continued)

21.6.2 Interest rate risk (continued)

Exposure to interest rate risk

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

	Group		Company	
	2017 RM'000	**2016 RM'000**	**2017 RM'000**	**2016 RM'000**
Fixed rate instrument				
Financial liabilities	**-**	(13,090)	**-**	-
Floating rate instruments				
Financial assets	**58,660**	37,024	**76,671**	77,348
Financial liabilities	**(434,759)**	(325,217)	**-**	-
	(376,099)	(288,193)	**76,671**	77,348

Interest rate risk sensitivity analysis

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 RM3,761,000 (2016: RM2,882,000) and RM767,000 (2016: RM773,000) respectively on the floating rate financial instruments. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

21.6.3 Commodity price risk

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

Risk management objectives, policies and processes for managing the risk

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

Nestrade has set-up a branch in Malaysia in 2017, based on the global procurement hub arrangement, to support the procurement activities of Zone Asia, Oceania and Africa ("AOA"). Nestrade, on behalf of the Group transacts palm oil and coffee commodity contracts in order to obtain better leverage. Following the guidelines set out by the holding company, all commodity contracts are for hedge purposes to protect the Group from price fluctuations.

21. Financial instruments (continued)

21.7 Hedging activities

Cash flow hedge

The Group uses cash flow hedges to mitigate foreign currency risks of highly probable forecast transactions, such as anticipated future export sales, purchases of equipment and raw materials. The forward exchange contracts and commodity futures have the nominal value of RM1,057,692,000 (2016: RM747,299,000) and RM104,460,000 (2016: RM92,090,000) respectively. The forward exchange contracts and commodity futures are entered into within a year and settled according to the individual contracts settlement date.

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

Group	Carrying amount RM'000	Expected cash flows RM'000	Under 1 year RM'000
2017			
Forward exchange contracts	**26,551**	**26,551**	**26,551**
Commodity futures	**3,682**	**3,682**	**3,682**
2016			
Forward exchange contracts	(16,837)	(16,837)	(16,837)
Commodity futures	3,074	3,074	3,074

During the financial year, a loss of RM25,099,000 (2016: loss of RM48,318,000) net of tax was recognised in the other comprehensive income and RM5,031,000 (2016: RM16,762,000) net of tax was reclassified from equity to profit or loss. Ineffectiveness gain amounting to RM112,000 (2016: gain of RM23,530,000) was recognised in profit or loss during the financial year in respect of the hedge.

21. Financial instruments (continued)

21.8 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.

It was not practicable to estimate the fair value of the Group's and the Company's investment in unquoted shares due to the lack of comparable quoted market prices in an active market and the fair value cannot be reliably measured.

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position:

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
Group 2017	**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**
Financial assets										
Commodity futures	**1,847**	**-**	**-**	**1,847**	**-**	**-**	**-**	**-**	**1,847**	**1,847**
Forward exchange contracts	**-**	**9,507**	**-**	**9,507**	**-**	**-**	**-**	**-**	**9,507**	**9,507**
Loans to employees	**-**	**-**	**-**	**-**	**-**	**-**	**37,437**	**37,437**	**37,437**	**37,437**
	1,847	**9,507**	**-**	**11,354**	**-**	**-**	**37,437**	**37,437**	**48,791**	**48,791**
Financial liabilities										
Commodity futures	**(5,529)**	**-**	**-**	**(5,529)**	**-**	**-**	**-**	**-**	**(5,529)**	**(5,529)**
Forward exchange contracts	**-**	**(36,058)**	**-**	**(36,058)**	**-**	**-**	**-**	**-**	**(36,058)**	**(36,058)**
Loan from a related company	**-**	**-**	**-**	**-**	**-**	**-**	**(359,970)**	**(359,970)**	**(359,970)**	**(359,970)**
	(5,529)	**(36,058)**	**-**	**(41,587)**	**-**	**-**	**(359,970)**	**(359,970)**	**(401,557)**	**(401,557)**
2016										
Financial assets										
Commodity futures	8,772	-	-	8,772	-	-	-	-	8,772	8,772
Forward exchange contracts	-	30,450	-	30,450	-	-	-	-	30,450	30,450
Loans to employees	-	-	-	-	-	-	37,744	37,744	37,744	37,744
	8,772	30,450	-	39,222	-	-	37,744	37,744	76,966	76,966
Financial liabilities										
Commodity futures	(11,846)	-	-	(11,846)	-	-	-	-	(11,846)	(11,846)
Forward exchange contracts	-	(13,613)	-	(13,613)	-	-	-	-	(13,613)	(13,613)
Loan from a related company	-	-	-	-	-	-	(84,264)	(84,264)	(84,264)	(84,264)
Finance lease liabilities	-	-	-	-	-	-	(12,335)	(12,335)	(12,335)	(13,090)
	(11,846)	(13,613)	-	(25,459)	-	-	(96,599)	(96,599)	(122,058)	(122,813)

21. Financial instruments (continued)

21.8 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 (2016: 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.

21.9 Master netting or similar agreements

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

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

21. Financial instruments (continued)

21.9 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
2017				
Derivative financial assets				
Forward exchange contracts designated as hedging instruments	8	**9,507**	**(9,507)**	**-**
Derivative financial liabilities				
Forward exchange contracts designated as hedging instruments	14	**(36,058)**	**9,507**	**(26,551)**
2016				
Derivative financial assets				
Forward exchange contracts designated as hedging instruments	8	30,450	(13,613)	16,837
Derivative financial liabilities				
Forward exchange contracts designated as hedging instruments	14	(13,613)	13,613	-

22. 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 investors', creditors' and markets' 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.

23. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2017 RM'000	2016 RM'000
Less than one year	**21,042**	24,381
Between one and five years	**17,092**	16,202
	38,134	40,583

The Group leases a distribution centre and head office under operating leases. The leases typically run for a period of one to six years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

24. Capital and other commitments

	Group	
	2017 RM'000	2016 RM'000
Capital expenditure commitments		
Plant and equipment		
Authorised but not contracted for	**106,636**	236,932
Contracted but not provided for within one year	**19,639**	22,147
	126,275	259,079

25. 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 the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control or common significant influence. 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. 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 and associate, Directors and other key management personnel.

25. Related parties (continued)

Significant related party transactions

Related party transactions have been entered into in the normal course of business under normal trade terms. The significant related party transactions of the Group and of the Company are shown below. The balances related to the below transactions are shown in notes 8, 12 and 14.

		Group		Company	
Group	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Related companies					
Sales of goods and services	a	**(890,420)**	(863,336)	**-**	-
Purchases of goods and services	a	**664,286**	506,897	**-**	-
Royalties		**258,492**	248,424	**-**	-
IT shared services		**43,157**	37,668	**-**	-
Finance costs	b	**6,411**	5,645	**-**	-
Finance income	c	**-**	-	**(2,428)**	(2,511)

		Group		Company	
Group	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Key management personnel					
Directors					
- Fees		**1,204**	1,199	**1,204**	1,199
- Remuneration		**6,231**	5,049	**-**	-
- Other short-term employee benefits (including estimated monetary value of benefits-in-kind)		**845**	747	**50**	40
Total short-term employee benefits		**8,280**	6,995	**1,254**	1,239
Post-employment benefits		**439**	486	**-**	-
Share-based payments		**1,873**	1,595	**-**	-
		10,592	9,076	**1,254**	1,239
Other key management personnel					
- Remuneration		**7,070**	5,882	**-**	-
- Other short-term employee benefits (including estimated monetary value of benefits-in-kind)		**806**	710	**-**	-
Total short-term employee benefits		**7,876**	6,592	**-**	-
Post-employment benefits		**455**	524	**-**	-
Share-based payments		**1,788**	1,458	**-**	-
		10,119	8,574	**-**	-
		20,711	17,650	**1,254**	1,239

25. Related parties (continued)

Significant related party transactions (continued)

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

Note b Loans from Nestlé Treasury Centre – Middle East & Africa are unsecured, subject to interest at 1.67% to 3.81% (2016: 3.88% to 4.02%) per annum and are repayable on demand.

Note c Loans to subsidiaries are unsecured, subject to interest at 3.07% to 3.23% (2016: 3.03% to 3.31%) 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 entity 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.

Statement by Directors

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

In the opinion of the Directors, the financial statements set out on pages 49 to 102 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 2017 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:

....

Alois Hofbauer
Chief Executive Officer

....

Martin Peter Kruegel
Chief Financial Officer

Petaling Jaya, Malaysia

28 February 2018

Statutory Declaration

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

I, **Martin Peter Kruegel**, 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 49 to 102 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, Martin Peter Kruegel, Passport No. C47XCYYNM in Petaling Jaya on 28 February 2018.

....

Martin Peter Kruegel
Chief Financial Officer

Before me:

Guna Papoo
Commissioner of Oaths (No. B338)

Petaling Jaya, Malaysia
28 February 2018

Independent Auditors' Report

to the Members of Nestlé (Malaysia) Berhad

(Company No. 110925-W)
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Nestlé (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2017 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 49 to 102.

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 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Key Audit Matters

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

Revenue recognition
(Refer to Note 2(l) - Significant accounting policy: Revenue and Note 20 – Operating Segments)

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer; and is measured net of pricing allowances, other trade discounts, and price promotions to customers (collectively "trade spend").

Key Audit Matters (continued)

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 set revenue growth as one of their key performance measures which could create an incentive for revenue to be recognised before the risks and rewards have 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, rebates 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 (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 and will not express any form of assurance conclusion thereon.

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

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

Responsibilities of Directors for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- 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.

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

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

Chong Dee Shiang
Approval Number: 02782/09/2018 J
Chartered Accountant

Petaling Jaya, Malaysia

28 February 2018

Shareholdings Statistics
at 28 February 2018

Authorised Capital	:	RM300,000,000
Issued and paid-up share capital	:	RM234,500,000
Class of shares	:	Ordinary shares
No. of shareholders	:	6,922
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	15,507,400	6.613

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	15,507,400	6.613
3	Kumpulan Wang Persaraan (Diperbadankan)	4,431,100	1.889
4	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (Par 1)	3,505,810	1.495
5	Cartaban Nominees (Asing) Sdn Bhd Exempt an for State Street Bank & Trust Company (West CLT OD67)	1,413,200	0.602
6	Amanahraya Trustees Berhad Public Islamic Dividend Fund	1,251,800	0.533
7	Pertubuhan Keselamatan Sosial	1,234,200	0.526
8	Valuecap Sdn Bhd	1,000,000	0.426
9	Amanahraya Trustees Berhad Public Islamic Equity Fund	738,100	0.314
10	Amanahraya Trustees Berhad Public Ittikal Sequel Fund	609,900	0.260

	Name	Number of shares held	%
11	Amanahraya Trustees Berhad Public Islamic Select Enterprises Fund	601,400	0.256
12	Kwang Teow Sang Sdn Bhd	560,700	0.239
13	Citigroup Nominees (Asing) Sdn Bhd UBS AG	547,858	0.233
14	Cartaban Nominees (Tempatan) Sdn Bhd PAMB for Prulink Equity Fund	525,700	0.224
15	Maybank Nominees (Tempatan) Sdn Bhd Maybank Trustees Berhad for Public Ittikal Fund (N14011970240)	450,000	0.191
16	Maybank Nominees (Tempatan) Sdn Bhd Maybank Trustees Berhad for Public Regular Savings Fund (N14011940100)	444,400	0.189
17	Citigroup Nominees (Asing) Sdn Bhd Exempt an for Citibank New York (Norges Bank 9)	404,200	0.172
18	Batu Pahat Seng Huat Sdn Berhad	363,985	0.155
19	Amanahraya Trustees Berhad Public Islamic Optimal Growth Fund	358,500	0.152
20	Woo Khai Yoon	356,000	0.151
21	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (Aberdeen)	345,100	0.147
22	Cartaban Nominees (Asing) Sdn Bhd GIC Private Limited for Government of Singapore©	335,700	0.143
23	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (Aberdeen)	316,100	0.134
24	DB (Malaysia) Nominee (Asing) Sdn Bhd BNYM SA/NV for People's Bank of China (SICL Asia EM)	285,500	0.121
25	Cartaban Nominees (Asing) Sdn Bhd RBC Investor Services Bank S.A. for Vontobel Fund - Far Eastequity	279,300	0.119
26	Kuok Foundation Berhad	274,200	0.116
27	Amanahraya Trustees Berhad Amanah Saham Wawasan 2020	266,300	0.113
28	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Deutsche Trustees Malaysia Berhad for Eastspring Investmentsdana Al-Ilham	262,700	0.112
29	HSBC Nominees (Asing) Sdn Bhd J.P. Morgan Securities PLC	259,200	0.110
30	Seah Gak San	252,600	0.107

Size of Holdings	No. of Shareholders/ Depositors	% of Shareholders/ Depositors	No. of Shares Held	Capital
1 - 99	759	10.965	5,474	0.002
100 - 1,000	4,387	63.378	2,045,687	0.872
1,001 - 10,000	1,297	18.737	4,511,814	1.924
10,001 - 100,000	392	5.663	11,726,359	5.001
100,001 - less than 5% of issued shares	85	1.228	30,426,703	12.975
5% and above of issued shares	2	0.029	185,783,963	79.226
Total	6,922	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
The Company				
Dato' Frits van Dijk	8,000	0.00341	-	-
Nestlé S.A., the holding company				
Dato' Frits van Dijk	200,000	0.00643	-	-
Mr Alois Hofbauer	7,615	0.00024	-	-
Mr Martin Peter Kruegel	2,844	0.00009	-	-

List of Properties Held
at 31 December 2017

Location	Tenure	Age*	Expiry Date	Size (m²)	Description	Net Book Value RM'000
1. No. 25 Jalan Tandang 46050 Petaling Jaya Selangor	Leasehold	57	Q.T. (R) 2619 25.09.2066 Q.T. (R) 5281 07.10.2069	50,342	Factory	14,985
2. Lot No. 3, 5, 75 & 76 Jalan Playar 15/1 40700 Shah Alam Selangor	Leasehold	8-47**	10.06.2070	113,396	Factory	41,459
3. Lot No. 6 Pesiaran Raja Muda 40700 Shah Alam Selangor	Leasehold	48	29.01.2070	36,835	Factory & warehouse	10,993
4. Lot Nos. 687 – 696, 3863 – 3866, 4671, 4673, 5435 & 5807 Mukim Chembong Daerah Rembau Negeri Sembilan	Leasehold	21-26	15.11.2048 27.06.2049 13.08.2055 20.11.2095	136,199	Factory	2,740
5. Lot Nos. 3857 – 3862 & 4672 Jalan Perusahaan 4 Kawasan Perindustrian Chembong, Chembong Rembau, Negeri Sembilan	Leasehold	21-26	27.06.2049 20.11.2095	33,870	Factory	1,297
6. Lot No. 844, Block 7 Muara Tebas Land District Sejingkat Industrial Estate Kuching, Sarawak	Leasehold	26	19.10.2053	25,460	Factory	302
7. Lot 915, Block 7 Muara Tebas Land District Demak Laut Industrial Park Kuching, Sarawak	Leasehold	23	12.10.2054	12,740	Factory	579
8. Plot 46, Bemban Industrial Park Batu Gajah, Perak	Leasehold	20	07.11.2058	157,500	Vacant land	5,545
9. Lot 3846, Pekan Chembong Daerah Rembau Negeri Sembilan	Leasehold	4	26.06.2049	4,249	Vacant land	288

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

www.nestle.com.my

Nestlé (Malaysia) Berhad (110925-W)

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

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C104284

Cover: Printed on FSC® Mix Certified 300gsm A Snow
Text: Printed on FSC® Mix Certified 120gsm Munken Kristal