

# CORPORATE GOVERNANCE REPORT

**STOCK CODE** : 4707  
**COMPANY NAME** : NESTLE (MALAYSIA) BERHAD  
**FINANCIAL YEAR** : December 31, 2019

## OUTLINE:

### **SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE**

*Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.*

### **SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PURSUANT CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA MALAYSIA**

*Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.*

## SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.

### Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

### Practice 1.1

The board should set the company's strategic aims, ensure that the necessary resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards, and ensure that its obligations to its shareholders and other stakeholders are understood and met.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board of Directors ("Board") in discharging its responsibilities in overseeing the overall management of Nestlé (Malaysia) Berhad ("Company") has, during the year under review, undertaken the following:</p> <p><b>Ensure that the Company's strategic plans supports the long-term value creation and includes strategies on the economic, environmental and social considerations underpinning sustainability;</b></p> <p>Good governance emanates from an effective and accountable board. The Board directly, and indirectly through its Board Committees, leads and provides direction to management to ensure that the Company's strategic plan supports its long-term value creation and includes strategies on the economic, environmental and social considerations underpinning sustainability. It monitors the Company's operational and financial performance, reviews the Company's compensation policies and succession planning, and ensures that effective governance, sustainability practices and sound internal control and risk management systems are in place. The Company's sustainability goals and journey can be found in the Company's Nestlé in Society 2019 Report.</p> <p><b>Review, challenge and decide on management's proposals for the Company and monitor its implementation by management;</b></p> <p>For effective oversight and leadership, the Board regularly reviews the reports and presentations from the Chief Executive Officer ("CEO") and the management on the progress of the approved strategies, plans and budgets. The Board also receives reports, updates and recommendations from the Board Committees and management on the governance, business performance and development of the Company.</p>

**Supervise and assess management performance to determine whether the business is being properly managed;**

Day-to-day operation of the businesses of the Company is delegated to the management who is led by the CEO. The Board not only oversees the conduct of the Company's business and operations, it also evaluates and ensures that its businesses are being properly managed to ensure the performance of the Company, as measured against the corporate goals and targets.

**Ensure there is a sound framework for internal controls and risk management;**

The Board and the management are responsible and accountable for the establishment of the Company's system of risk management and internal control.

There is in place an effective and efficient internal control system which enables the Company to respond appropriately to significant business, operational, financial, compliance and other risks in achieving its objectives. This includes the safeguard of assets from inappropriate use or from loss and fraud, and ensuring that risks and liabilities are identified and managed. Furthermore, it helps to ensure the quality of internal and external reporting within the Company and its subsidiaries ("Group") and the compliance with applicable laws and regulations, and also internal policies with respect to the conduct of businesses of the Company.

The Audit Committee supports the Board in monitoring the Group's risk exposures, the design and operating effectiveness of the underlying risk management and internal controls systems. The Audit Committee assists the Board, to oversee the following processes:

- (i) periodic reviews of the principal business risks and control measures to mitigate or reduce such risks; the strengths and weaknesses of the overall internal controls system and action plans to address the weaknesses or to improve the assessment process;
- (ii) monitors the Group's internal control through the internal audit function known as Nestlé Internal Audit which is responsible for reviewing major operational, financial, compliance and risk management controls of the Group on a continuous basis;
- (iii) periodic reviews of the internal audit findings reported by Nestlé Internal Audit, including action plans to address any identified control weaknesses and implementation of recommendations; and
- (iv) reports by the external auditors of any control issues identified in the course of their audit related and non-audit related work, and discussions with the external auditors on the scope of their respective reviews and findings.

The Audit Committee will then update the Board on the issues raised at the quarterly Audit Committee meetings.

**Understand the principal risks of the Company's business and recognise that business decisions involve the taking of appropriate risks;**

The Board acknowledges that the link between risk, internal controls, strategy and value is critical. This link is formalised through an alignment of the Company's strategy, risk and internal processes, which supports fulfilment of the Company's strategic priorities, thereby delivering value for its stakeholders.

It sets the risks appetite within which the Board expects management to operate and ensure that there is an appropriate risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks. The Board and the management fully support the contents of the Statement on Risk Management and Internal Control. The Board and management have put in place risk management guidelines, control measures and processes throughout the Company.

The Company has in place its Enterprise Risk Management Framework and risk management practices are inculcated and entrenched in the activities of the Company, which requires, amongst others, establishing risk tolerance thresholds to actively identify, assess and monitor key business risks faced by the Company.

The risk management principles, policies, procedures and practices are periodically reviewed, and the risks identified under the Enterprise Risk Management Framework, the mitigating measures and updates are presented and deliberated at the Audit Committee and Board meetings.

**Ensure the Company has in place procedures to enable effective communication with stakeholders;**

The Board gives high priority to maintaining balanced, clear and transparent communications with the Shareholders and other investors to facilitate their understanding of the Group's performance and prospects as well as the market environment in which it operates. The Company has a sound Investor Relations programme which reaches out to the investing community and other stakeholders through continuous engagement and through the maintenance of a comprehensive, informative website which is investor focused and feedback driven.

The Company also maintains continuous engagements with other stakeholders, the full details are available on pages 12 to 17 of the Company's Nestlé in Society Report 2019.

**Ensure that the Senior Management (“Nestlé Leadership Team”) has the necessary skills and experience and there are measures in place to provide for the orderly succession of the Senior Management;**

The Board recognises the importance of ensuring proper succession in senior management and identifying leaders with appropriate skills and experience to support delivery of the Company’s strategic initiatives. Succession planning for the Nestlé Leadership Team is considered by the Board through the Nomination and Compensation Committee (“NCC”) which reviews both the Board and Group’s succession plans and benchmarks their review of compensation and hiring on competitive industry practices and through meritocracy.

The Board ensures that the Senior Management has the necessary skills and experience, and that there are measures in place to provide for the orderly succession of the Senior Management.

**Ensure the integrity of the Company’s financial and non-financial reporting;**

The Board, which is responsible for overseeing the preparation of annual financial statements, receives quarterly management accounts and updates on the Company’s performance, financial position and prospects. The Board is assisted by the Audit Committee in overseeing the Company’s financial reporting processes and the quality of the financial reporting.

In preparing the financial statements for the financial year ended 31 December 2019, the Board adopted appropriate accounting policies consistently, made prudent and reasonable judgements and estimates, and ensured that the financial statements were prepared on a going concern basis and show a true and fair view of the consolidated financial position of the Company as at 31 December 2019 and of the Company’s consolidated financial performance and cash flows for the year.

**Together with the management, promote good corporate governance culture within the Company which reinforces ethical, prudent and professional behaviour;**

Good governance is intrinsic to promoting ethical, prudent and professional behaviour. The Board along with the management continues to promote good corporate governance culture, whereby the Company has in place policies and procedures which promote a culture of good governance and ethical, prudent and professional behaviour. Such policies include the Nestlé Corporate Business Principles, Nestlé Code of Business Conduct, Nestlé Management and Leadership Principles and Nestlé Malaysia Anti-Corruption, Gifts and Entertainment Guidelines, which outlines the conduct and responsibilities of the Directors, employees and third party service providers. All Directors and employees of the Group also sign an Integrity Pledge declaration.

<b>Explanation for departure</b> :		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b> :		
<b>Timeframe</b> :		

## Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

### Practice 1.2

A Chairman of the board who is responsible for instilling good corporate governance practices, leadership and effectiveness of the board is appointed.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Chairman's main role and responsibility is to ensure effective conduct and performance of the Board and provide leadership to the Board in driving the focus on corporate governance and compliance, through the execution of the following:</p> <ul style="list-style-type: none"><li>• Leading the Board in establishing and monitoring good corporate governance practices.</li><li>• Guide and mediate the Board's actions with respect to organisational priorities and governance concerns.</li><li>• Undertake the primary responsibility for organising the information necessary for the Board to deal with the items on the agenda and for providing this information to the Directors on a timely basis with the assistance of the Company Secretary.</li><li>• Ensure that Board meetings are effective, including setting and ensuring that all relevant issues are on the agenda, ensuring that the agenda and all relevant information is timely received by all Directors and that the Directors are properly briefed on issues discussed at the Board meetings.</li><li>• Encourage the Directors to actively participate in constructive deliberations and to ensure that the Directors are able to freely express their views.</li><li>• Be the major point of contact between the Board and CEO, working closely and facilitating effective communication with the CEO and the management.</li><li>• Be kept fully informed of current events by the CEO on all matters which may be of interest to the Directors.</li><li>• Regularly review progress on important initiatives and significant issues facing the Company together with the CEO and other relevant members of the management.</li><li>• Undertake appropriate public relations activities together with the CEO and ensuring there is effective communication with the Shareholders and other stakeholders.</li></ul>

	<ul style="list-style-type: none"> <li>• Be the spokesperson for the Company at the Annual General Meeting (“AGM”) and in the reporting of performance and profit figures, together with the CEO.</li> </ul> <p>The key roles and responsibilities of the Chairman can be found in the Board Charter.</p> <p><i>The Board Charter is available on the Company’s corporate website at: <a href="https://www.nestle.com.my/aboutus/investors/corporate_governance">https://www.nestle.com.my/aboutus/investors/corporate_governance</a></i></p>	
<b>Explanation for departure</b> :		
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<b>Measure</b> :		
<b>Timeframe</b> :		

### Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

### Practice 1.3

The positions of Chairman and CEO are held by different individuals.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The Chairman of the Board and the CEO have separate distinct functions and responsibilities and are held by different individuals.  This division ensures that there is a clear and proper balance of power and authority to facilitate an accountable and high performing Board and to ensure that no one has unfettered powers of decision. The Chairman of the Board has never assumed any executive position in the Company.  The separate distinct functions and responsibilities of the Board and the CEO are also reflected in the Board Charter.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

## Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

### Practice 1.4

The board is supported by a suitably qualified and competent Company Secretary to provide sound governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices.

<b>Application</b>	: Applied
<b>Explanation on application of the practice</b>	<p>The Company Secretary is a person qualified to act as a company secretary under Section 235(2) of the Companies Act 2016. She holds a Bachelor of Laws (Hons) from the University of Nottingham, United Kingdom and was admitted as a Barrister-at-Law of the Honourable Society of Lincoln's Inn, London. She has also been called to the Malaysian Bar.</p> <p>The Company Secretary supports and works closely with the Chairman of the Board, the CEO and the respective Board Committee Chairman in setting agenda items for meetings of the Board and the Board Committees. The Company Secretary advises the Board on its roles and responsibilities and is responsible to the Board for ensuring applicable rules and regulations are complied with, Board procedures are followed, good corporate governance practices are adopted and that the Board is advised on governance and relevant regulatory matters.</p> <p>The Company Secretary manages the AGM, Board, Board Committee meeting arrangements and logistics, attend the meetings and facilitate the Board communications. She is also the focal point for stakeholder's communication and engagement on corporate governance issues.</p> <p>In addition, the Company Secretary supports the Chairman in facilitating the training for the Directors and the design and delivery of Non-Executive Director induction programme. All Directors have access to the services of the Company Secretary.</p> <p>The Company Secretary has undertaken continuous professional development by attending the following trainings relevant to her role as a Company Secretary:</p> <ul style="list-style-type: none"><li>• Workshop on the Companies Act 2016 &amp; Secretarial Practices</li><li>• SSM National Conference 2019</li><li>• MCCG – Adoption of Practices for Meaningful Corporate Governance</li><li>• Workshop on Corporate Governance</li><li>• The Company Constitution Pre &amp; Post Companies Act 2016</li><li>• Workshop on the Companies Act 2016 &amp; Secretarial Practices</li><li>• Section 17A of MACC Act</li></ul>

	<ul style="list-style-type: none"> <li>• Business Ethics &amp; Integrity Seminar : Enhancing Business Success Through Ethical Practice</li> <li>• Technical Briefing for Company Secretaries of Listed Issuers</li> </ul> <p>The full list of trainings that the Company Secretary has attended can be found on page 15 of the Company's Corporate Governance &amp; Financial Report 2019.</p> <p>The role of the Company Secretary has also been clearly defined in the Board Charter.</p>	
<b>Explanation for departure</b> :		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b> :		
<b>Timeframe</b> :		

## Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

### Practice 1.5

Directors receive meeting materials, which are complete and accurate within a reasonable period prior to the meeting. Upon conclusion of the meeting, the minutes are circulated in a timely manner.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>To facilitate the Directors' planning, an annual meeting calendar is prepared and circulated to the Directors at least eight months in advance before the beginning of each new financial year.</p> <p>At least 14 days prior to each Board and Board Committee meeting, a notice and the structured agenda, as approved by the respective Chairman of the Board or the Board Committees, will be issued by the Company Secretary to the respective members and attendees. The Board and Board Committee papers, including presentations and reading materials are generally circulated to all Directors in advance, at least five business days prior to the Board or Board Committee meetings for the Directors to have a clear and adequate understanding of the subject matters and be prepared to deal with matters at the Board and Board Committee meetings and to enable the Board and Board Committees to discharge its duties and make effective decisions. The Board firmly believes that effective deliberation and its decision making process is highly dependent on the quality of timely information furnished by the management. In the event of any urgent matters or when additional papers are circulated less than five business days, the management will take the Board through the documents for a more detailed explanation.</p> <p>The Chairman is responsible for ensuring that all Directors receive and are properly briefed on issues arising at Board meetings and that they have full and timely access to relevant information.</p> <p>The deliberations and decisions of the Board and Board Committees are properly documented in the minutes and the draft minutes are circulated to all the Directors/members of the Board Committees. The Company Secretary would also notify and follow-up with the management of any appropriate actions to be taken or further updates to be provided to the Board. The updates and actions plan for the items identified as matters arising would be further discussed at the next Board/Board Committee meetings.</p> <p>In addition to the 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 and the Company Secretary. Briefings may be arranged to discuss important issues.</p>

	As part of the Board’s initiative to promote efficiencies and environmental sustainability, as much as possible, the Board has adopted paperless meetings through the usage of technology and electronic devices which allows immediate access to the materials.	
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

There is demarcation of responsibilities between the board, board committees and management.

There is clarity in the authority of the board, its committees and individual directors.

### Practice 2.1

The board has a board charter which is periodically reviewed and published on the company's website. The board charter clearly identifies–

- the respective roles and responsibilities of the board, board committees, individual directors and management; and
- issues and decisions reserved for the board.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board has a Board Charter, which provides guidance to the Board in the fulfilment of its roles, duties and responsibilities. The Board Charter is to promote high standards of corporate governance and is designed to provide guidance and clarity to the Directors and management with regard to the respective roles and responsibilities and the Board's reserved matters and responsibilities.</p> <p>The Board Charter also outlines among others, the Board composition, Board's roles and responsibilities, separation of functions between the Chairman and the CEO, Board operating practices, Board evaluation, Board access to information, advice and training, and the ethical standards, integrity, legal duties and confidentiality expected from the Directors.</p> <p>The Board Charter is annually reviewed. It was last reviewed and approved by the Board on 25 February 2020.</p> <p><i>The Board Charter is available on the Company's corporate website at: <a href="https://www.nestle.com.my/aboutus/investors/corporate_governance">https://www.nestle.com.my/aboutus/investors/corporate_governance</a></i></p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

### Practice 3.1

The board establishes a Code of Conduct and Ethics for the company, and together with management implements its policies and procedures, which include managing conflicts of interest, preventing the abuse of power, corruption, insider trading and money laundering.

The Code of Conduct and Ethics is published on the company's website.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>It is a fundamental policy of the Company to conduct its business with honesty, integrity and in accordance with the highest legal and ethical standards.</p> <p>The Board together with the Senior Management, sets the tone and standards of integrity and compliance within the Company.</p> <p>In discharging its responsibilities, the Board is guided by the code of conduct and principles contained in the following internal policies/guidelines:</p> <p><b>Nestlé Corporate Business Principles (“NCBP”)</b></p> <p>The Board and all employees are guided by the NCBP that cover key issues that underpin compliance, sustainability and corporate social responsibilities known as Creating Shared Value (“CSV”), catered to fit the unique characteristics of the Company.</p> <p>The 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:</p> <ul style="list-style-type: none"><li>• We delight consumers (Principles 1, 2, 3)</li><li>• We care about people (Principles 4, 5, 6)</li><li>• We develop responsible partnerships (Principles 7, 8)</li><li>• We promote sustainability (Principles 9, 10)</li></ul>

	<p><b>Nestlé Code of Business Conduct (“NCBC”)</b></p> <p>The NCBC outlines the conduct and responsibilities of the Board and all employees. The Directors 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.</p> <p>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, prohibition on corrupt activities and the need to protect and ensure the proper and efficient use of the Company’s assets.</p> <p>The NCBC is premised on three basic principles, which are:-</p> <ul style="list-style-type: none"> <li>(a) Avoidance of any conduct that could damage or create risk to the Company or its reputation;</li> <li>(b) Legal compliance and honesty, to place the Company’s interests ahead of personal or other interests; and</li> <li>(c) Guidance on how the Board and employees should behave.</li> </ul> <p><b>Nestlé Malaysia Anti-Corruption, Gifts &amp; Entertainment Guidelines (“Guidelines”)</b></p> <p>The Group launched the Nestlé Malaysia Anti-Corruption, Gifts &amp; Entertainment Guidelines in 2017. The objective of the Guidelines is to capture specific limits on gifts, entertainment and procedures on other high-risk areas. The Guidelines is periodically reviewed.</p> <p>All Directors and employees of the Company sign an Integrity Pledge declaration of their commitment to uphold integrity in all business dealings and to comply with the Guidelines . Periodical trainings are also conducted on the above Policies and Guidelines.</p> <p><i>The Nestlé Corporate Business Principles, Nestlé Code of Business Conduct and the Nestlé Malaysia Anti-Corruption, Gifts &amp; Entertainment Guidelines are available on the Company’s corporate website at: <a href="https://www.nestle.com.my/aboutus/business-principles">https://www.nestle.com.my/aboutus/business-principles</a> and <a href="https://www.nestle.com.my/aboutus/nestle_in_malaysia/anti-corruption-gifts-entertainment-guidelines">https://www.nestle.com.my/aboutus/nestle in malaysia/anti-corruption-gifts-entertainment-guidelines</a></i></p>
<p><b>Explanation for departure</b></p>	<p>:</p>

*Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.*

<b>Measure</b> :		
<b>Timeframe</b> :		

### Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

### Practice 3.2

The board establishes, reviews and together with management implements policies and procedures on whistleblowing.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p><b>Whistleblowing System</b></p> <p>Professionalism, honesty and integrity are core to the Company's business. The Company is committed to identifying and responding to reportable conduct, and fostering a culture of continuous improvement.</p> <p>One of the key provisions in the NCBC is reporting on illegal or unacceptable behaviour and/or non-compliant conduct. The Board acknowledges that misconduct such as violation of laws, rules, regulations, production fault, fraud, health and safety violations or corruption are usually known first by the people who work in or with the Group. An early warning system such as a whistleblowing system and procedure can help the Company to detect wrongdoings and alert the Company to take corrective actions before any problems becomes a crisis.</p> <p>A whistleblowing system strengthens and supports good management and at the same time demonstrates accountability, provides good risk management and sound corporate governance practices. The Company believes that having a whistleblowing system in place increases investors' confidence in the Company.</p> <p>Employees are strongly encouraged to speak up and raise any suspicions of wrongdoing, malpractice or impropriety by bringing up these issues with their line managers or through the internal whistleblowing procedures, also known as the Non-Compliance Hotline. 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.</p>

	<p>The Company has adopted the following principles in relation to its whistleblowing system:</p> <ul style="list-style-type: none"> <li>• The identity of the whistleblower is safeguarded at all times. Whistleblowers who act honestly, reasonably and in good faith with genuine belief about the reportable conduct, will be supported and protected from coercion, retaliation or reprisals that stem from making a disclosure.</li> <li>• Investigations will be conducted in an objective, independent and confidential manner. Appropriate corrective action will be taken as warranted by the investigation.</li> <li>• The Company will not take any disciplinary action against a whistleblower where a disclosure is unable to be substantiated or is found to be untrue, when the disclosure was made with a genuine or reasonable belief regarding the reportable conduct.</li> </ul> <p>For this purpose, the Non-Compliance Hotline is managed by an independent third party to respect anonymity and protect a whistleblower.</p> <p>Additionally, the Company makes available a whistleblowing avenue to its suppliers and third parties service providers through a system called Tell-Us, which is available through the Company’s corporate website.</p> <p>A Business Ethics and Fraud Committee (“BEFC”) set up by the management is in place to review all complaints and/or allegations lodged via the Non-Compliance Hotline or Tell-Us system, or any other avenues (e.g. phone, letter, e-mail). The BEFC, consisting of Senior Managers of the Company, and chaired by the CEO, ensures an investigation is conducted in an objective, independent and confidential manner. It reviews the investigation report and decides on the next steps including appropriate corrective actions as warranted based on the investigation outcome and nature of the violation. Reports and updates are presented and discussed at the Audit Committee meetings prior to it being presented to the Board.</p> <p>In 2019, six non-compliance complaints were received via the whistleblowing system, all of which have been duly investigated and actions have been taken, when necessary.</p>
<p><b>Explanation for departure</b></p>	<p>:</p>

*Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.*

<b>Measure</b> :		
<b>Timeframe</b> :		

### Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

### Practice 4.1

At least half of the board comprises independent directors. For Large Companies, the board comprises a majority independent directors.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board comprises of seven Directors, the majority of whom are Independent Directors. The Chairman is a Non-Independent Non-Executive Director, four Directors are Independent Non-Executive Directors and two are Executive Directors, comprising of the CEO and Chief Financial Officer (“CFO”).</p> <p>Independent Directors constitute 57% of the Board and this allows for objective and independent deliberation review and decision making.</p> <p>All four Independent Non-Executive Directors have satisfied the annual independence assessment carried out in 2019, in line with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Listing Requirements”), as part of the Board Effectiveness Evaluation.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

## Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

## Practice 4.2

The tenure of an independent director does not exceed a cumulative term limit of nine years. Upon completion of the nine years, an independent director may continue to serve on the board as a non-independent director.

If the board intends to retain an independent director beyond nine years, it should justify and seek annual shareholders' approval. If the board continues to retain the independent director after the twelfth year, the board should seek annual shareholders' approval through a two-tier voting process.

<b>Application</b>	: Applied - Annual shareholders' approval for independent directors serving beyond 9 years
<b>Explanation on application of the practice</b>	<p>The tenure of an Independent Director is not to exceed a cumulative term of nine years. However, if the Director meets the assessment as well as the relevant codes and regulations on independence and retention, and there is strong justification for the Director to continue with his or her tenure, the Board may retain the Independent Director beyond the nine years subject to the approval of the Shareholders at the AGM.</p> <p>The NCC reviews and assesses the performance of the Directors who are subject to retention based on among others, the following criterias and submits its recommendation to the Board for the proposed retention being presented to the Shareholders for approval:-</p> <ul style="list-style-type: none"><li>• Compliance with prescriptive requirements by regulators;</li><li>• Assessment of continued independence to ensure their ability to remain independent in their character and judgement, and without any conflicts of interest;</li><li>• Participation in Board and Board Committee meetings;</li><li>• Contribution to interaction;</li><li>• Performance and quality of input;</li><li>• Understanding of roles and responsibilities; and</li><li>• Providing value to the Board through unique, in-depth knowledge, experience and expertise.</li></ul> <p>Having served for a cumulative term of more than nine years, the following Director has undergone and fulfilled the requirements of independence and other assessments, is being proposed to be retained as Independent Director at the forthcoming AGM:</p>

	<ul style="list-style-type: none"> <li>Dato' Mohd. Rafik Bin Shah Mohamad</li> </ul> <p>At the moment, no Directors have served as Independent Directors beyond 12 years.</p>
<b>Explanation for departure</b> :	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>	
<b>Measure</b> :	
<b>Timeframe</b> :	

**Intended Outcome**

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

**Practice 4.3 - Step Up**

The board has a policy which limits the tenure of its independent directors to nine years.

<b>Application</b>	:	Not Adopted
<b>Explanation on adoption of the practice</b>	:	

### Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

### Practice 4.4

Appointment of board and senior management are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Company places great emphasis on diversity principles. The right blend of skills, experience and diversity the Board and the Senior Management Team (“Nestlé Leadership Team”) is an essential element of ensuring its effectiveness, which in turns leads to the long-term success of the Company.</p> <p>A diverse Board and Senior Management Team is one that possesses a balance of skills, experience, age, ethnicity/cultural background, gender and a diversity of perspectives that are relevant to the Company’s business and its strategic objectives. The Company adopts a meritocracy system which does not discriminate on the grounds of gender, age and ethnicity/cultural background. All appointments to the Board and to the Senior Management Team must be based on merit.</p> <p>The NCC is responsible for regularly reviewing the structure, size and composition of the Board, with due regard to skills, knowledge, experience and diversity. It leads the process for Board appointments, re-election and succession of Directors and makes recommendations to the Board, including the composition and skills of the Board, proposed changes to the Board and the membership of the Board Committees.</p> <p>The NCC has a formal and transparent procedure for the appointment of new Directors to the Board. When assessing new appointments to the Board, it carefully reviews the combined skills and experience of the existing Board members to determine the required characteristics and profile of the new Director. Candidates are identified based on their corporate leadership, skills, knowledge, competencies, experience and expertise. Diversity of experience in business, professionalism, corporate industry standing, integrity as well as academic background, age, gender and ethnicity/cultural background are also considered.</p> <p>Besides carrying out reference checks, the candidates are interviewed as part of the assessment process. Consideration is given to ensure appointees have sufficient time to devote to the role, ability to discharge responsibilities and that the balance of skills, knowledge and experience on the Board will be maintained and enriched. When the NCC has found a suitable candidate, the NCC makes a recommendation</p>

	<p>to the Board for deliberation. The Board has the final say on any appointments.</p> <p>The succession plan for the Senior Management Team is also reviewed by the NCC prior to it being presented to the Board. The said appointment is also based on merit and leadership skills, with due regard for diversity in skills, experience, age, ethnicity/cultural background and gender. It also takes into account the challenges and opportunities facing the Group as well as future skills and expertise needed to allow the Group to compete effectively in its market.</p> <p>The Board has in place a Diversity Policy for both Board and Senior Management which was last reviewed and approved by the Board on 25 February 2020.</p> <p><i>The Diversity Policy is available on the Company's corporate website at: <a href="https://www.nestle.com.my/aboutus/investors/corporate_governance">https://www.nestle.com.my/aboutus/investors/corporate_governance</a></i></p>	
<p><b>Explanation for departure</b></p>		
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<p><b>Measure</b></p>		
<p><b>Timeframe</b></p>		

### Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

### Practice 4.5

The board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.

<b>Application</b>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	<p>The Board has in place a Diversity Policy for both the Board and its Senior Management Team, which was last reviewed and approved by the Board on 25 February 2020. The Diversity Policy recognises the effectiveness that a diverse workforce can bring. A balance of skills, experience, age, ethnicity/cultural background, gender and differing perspectives are essential in understanding all aspects of a business and its strategic intent. A truly diverse Board will include and make good use of differences in the skills, regional and industrial experience, background, race, gender and other qualities of members of the Board. These differences will be taken into account in determining the optimum composition of the Board.</p> <p>Board Diversity is an agenda item for discussion by the NCC.</p> <p>The Company currently has seven Directors, and there are two female Directors, which constitute 29% of the Board. When a new Board candidate is considered, the focus would be to appoint a female Director with the required expertise, experience, corporate industry standing and skills in view of adding value to an already experienced Board of Directors, without compromising the quality of the candidate. All appointments to the Board must be based on merit.</p> <p>The Company believes that diversity amongst Board members is of great value but that diversity is a far wider subject than just gender.</p> <p>(For further details on diversity, please see the application of Practice 4.4)</p> <p>When there is a potential vacancy in the Board, efforts are taken to identify potential female candidates with the required expertise, experience, corporate industry standing and skills.</p>

*Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.*

<b>Measure</b>	:	The Board has been working on identifying a pool of suitable potential female Directors, so that the Company is prepared when a new Board member is to be appointed. The Board is committed to achieve at least 30% female directors on the Board in the year 2020.	
<b>Timeframe</b>	:	Within 1 year	

### Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

### Practice 4.6

In identifying candidates for appointment of directors, the board does not solely rely on recommendations from existing board members, management or major shareholders. The board utilises independent sources to identify suitably qualified candidates.

<b>Application</b>	:	Departure	
<b>Explanation on application of the practice</b>	:		
<b>Explanation for departure</b>	:	The Board has engaged with independent source but decided not to proceed.	
		The Board relies on its network and those proposed by professional advisors to identify potential candidates with the right quality and calibre suited to the needs of the Company. Candidate reference checks and interviews are also carried out.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:	The Board will continue to gauge the capability of the independence sources in understanding the needs of the Company.	
<b>Timeframe</b>	:	Others	To be reviewed as and when appropriate.

### Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

### Practice 4.7

The Nominating Committee is chaired by an Independent Director or the Senior Independent Director.

<b>Application</b>	:	Departure	
<b>Explanation on application of the practice</b>	:		
<b>Explanation for departure</b>	:	The NCC is chaired by Tan Sri Dato' Seri Syed Anwar Jamalullail, who is a Non-Independent Non-Executive Director. The election of Tan Sri Dato' Seri Syed Anwar Jamalullail as the Chairman of the NCC is not only based on his exemplary leadership, but is also based on his expertise, dedication and also his commitment in leading the Board's succession planning. His vast experience and knowledge ensures a more efficient and effective committee, and sets the direction and objective of the NCC.	
		As an alternative practice, all members of the NCC are Non-Executive Directors and the other NCC members are all Independent Directors. Thus, the NCC is made up of a majority of Independent Directors, bringing balance to the NCC and allowing robust discussions and constructive assessments on policies and procedures.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:	Tan Sri Dato' Seri Syed Anwar Jamalullail undergoes an annual Board Effectiveness Evaluation to ascertain the effectiveness of his contributions to the Board and the Board Committees in which he chairs or sits.	
<b>Timeframe</b>	:	Others	This will be taken into account by the Board when planning for the succession of the Chairman of the NCC.

## Intended Outcome

Stakeholders are able to form an opinion on the overall effectiveness of the board and individual directors.

## Practice 5.1

The board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees and each individual director. The board should disclose how the assessment was carried out and its outcome.

For Large Companies, the board engages independent experts periodically to facilitate objective and candid board evaluations.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>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.</p> <p>The evaluation also serves as guidance for the work of the NCC as well as a reference point for the Board to evaluate that a balanced, diverse, skilled Board across a wide range of areas and expertise is consistently maintained. It also addresses the gaps and training areas for the Board.</p> <p>A Board Effectiveness Evaluation (“BEE”) was carried out in 2019 by an external independent party, KPMG Management &amp; Risk Consulting Sdn. Bhd. (“KPMG Consulting”), to evaluate and assess amongst others, in a rigorous and objective manner, the function, structure, membership and effectiveness of the Board as a whole, the Board Committees, the individual Directors, including their contribution and performance, the efficiency of the meetings, the independence of the Independent Directors and the Board’s skill matrix.</p> <p>This exercise was undertaken through the modalities of questionnaires and individual interviews with all the Directors by KPMG Consulting.</p> <p>Further details of the BEE, the assessment criteria and the outcome of the BEE can be found on pages 16 - 17 of the Company’s Corporate Governance &amp; Financial Report 2019.</p> <p>The results of the BEE will be used as a basis for a Board Improvement Programme to be implemented in 2020. The Board Improvement Programme is a framework in which a number of areas identified from the BEE, which require further improvements to enhance the Board’s effectiveness.</p> <p>Overall, the results of the BEE have been positive based on the responses and feedback received and the overall score is above the market average score.</p>

<b>Explanation for departure</b> :		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b> :		
<b>Timeframe</b> :		

### Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

### Practice 6.1

The board has in place policies and procedures to determine the remuneration of directors and senior management, which takes into account the demands, complexities and performance of the company as well as skills and experience required. The policies and procedures are periodically reviewed and made available on the company's website.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board has in place a Remuneration Policy in determining the remuneration of the Directors and Senior Management. The Remuneration Policy is designed with the key objective of attracting and retaining experienced, qualified and high calibre members of the Board and also the right calibre of employees to drive the business strategy, objectives, values and long term interests of the Company.</p> <p>The Remuneration Policy is under the purview of the NCC and it sets out the philosophy and principles in determining the level of compensation for the Non-Executive Directors, Executive Directors and the employees of the Group.</p> <p>The Remuneration Policy is periodically reviewed with its last review by the Board on 25 February 2020.</p> <p><i>The Remuneration Policy is available on the Company's corporate website at:</i>  <a href="https://www.nestle.com.my/aboutus/investors/corporate_governance">https://www.nestle.com.my/aboutus/investors/corporate_governance</a></p>
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

### Practice 6.2

The board has a Remuneration Committee to implement its policies and procedures on remuneration including reviewing and recommending matters relating to the remuneration of board and senior management.

The Committee has written Terms of Reference which deals with its authority and duties and these Terms are disclosed on the company's website.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board has in place a combined NCC with four members, who are all Non-Executive Directors, three of whom are Independent Directors.</p> <p>The main objectives of the NCC are as follows:</p> <ol style="list-style-type: none"><li>1. To ensure that the Board comprises of individuals with the necessary skills, knowledge and experience for the effective discharge of its responsibilities and to have an oversight of all matters relating to corporate governance.</li><li>2. To assess and make recommendations to the Board on the policies for remuneration of the members of the Board, Senior Management and employees of the Group.</li></ol> <p>The principle responsibilities of the NCC with regard to the compensation functions are as follows:-</p> <ol style="list-style-type: none"><li>1. Ensure that the remuneration package of the members of the Board and employees of the Group are benchmarked against industry standards in light of the Group's performance in the industry and to ensure market competitiveness in order to attract and retain talents;</li><li>2. Determine the Group's remuneration philosophy and principles to ensure that they are in line with the business strategy, objectives, values and long-term interests of the Group and comply with all regulatory requirements;</li><li>3. Review the Group's remuneration practices in relation to the risk environment and ensure that remuneration does not encourage excessive risk-taking and is determined within the Group's risk</li></ol>

	<p>management and control framework taking into account the long-term interests of the Shareholders, fund investors and other stakeholders;</p> <ol style="list-style-type: none"> <li>4. Review and approve the Management’s proposal for the annual salary increase package for the employees as recommended by the Group Human Resource Department for subsequent approval by the Board;</li> <li>5. Review and recommend to the Board on the remuneration of the Non-Executive Directors, by taking into account the level of expertise, commitment and responsibilities undertaken;</li> <li>6. Review the individual remuneration packages of the Executive Directors and Senior Management; and</li> <li>7. Review the report on the remuneration to be disclosed in the Annual Report, in line with applicable statutory and regulatory disclosure requirements.</li> </ol> <p>As it deems appropriate, the NCC may also engage independent professional advisors or service providers in order to carry out its function and responsibilities, including compensation consultants, and shall be directly responsible for the appointment, termination, compensation and oversight of the work of any advisors engaged by the NCC.</p> <p><i>The Terms of Reference of the Nomination and Compensation Committee is available on the Company’s website at: <a href="https://www.nestle.com.my/aboutus/investors/corporate_governance">https://www.nestle.com.my/aboutus/investors/corporate_governance</a></i></p>
<p><b>Explanation for departure</b> :</p>	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>	
<p><b>Measure</b> :</p>	
<p><b>Timeframe</b> :</p>	

**Intended Outcome**

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

**Practice 7.1**

There is detailed disclosure on named basis for the remuneration of individual directors. The remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	<p>The Company has disclosed in detail, on a named basis, the remuneration of its individual directors which includes fees, salary, emoluments and benefits.</p> <p>The breakdown of the Directors' remuneration paid in 2019 can be found on page 18 of the Company's Corporate Governance &amp; Financial Report 2019.</p>	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

### Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

### Practice 7.2

The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

<b>Application</b>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	<p>The Company follows the compensation framework of Nestlé S.A., its parent company.</p> <p>The Company is aware that success of the business depends the Company's ability to attract, motivate and retain the right talented employees. The Company has numerous programmes to support this ambition, which includes a competitive remuneration policy. The Company believes in a performance culture as well as good corporate governance and sustainability. The Company's remuneration is based on the following principles:</p> <ul style="list-style-type: none"><li>• pay-for-performance to support the Company's short-term and long-term objectives;</li><li>• compensation aligned with long-term strategy of the Company and the Shareholders' interests;</li><li>• coherence in the Company's remuneration plans and levels throughout the Company;</li><li>• competitiveness versus external market comparisons; and</li><li>• appropriate balance of fixed and variable remuneration and short-term and long-term rewards.</li></ul> <p>In such a competitive environment, the retention of key talent is critical to the successful delivery of the Company's strategy. The Company is of the view that disclosing the remuneration of Senior Management will be detrimental to the Company and may lead to:</p> <ul style="list-style-type: none"><li>• other competitor companies attempting to 'poach' performing executives;</li></ul>

	<ul style="list-style-type: none"> <li>• upward pressure on executive packages as lesser paid executives will demand comparability; and</li> <li>• an invasion of privacy and may expose named officers to extortion attempts and other criminal acts.</li> </ul>		
	<p>The Company takes guidance from Nestlé S.A. to determine the level of remuneration that the Senior Management receives. Such guidance ensures that remuneration packages are set at industry standards, reflects the roles, responsibilities, level of skills and experience of Senior Management, and motivates performance.</p> <p>The performances of Senior Management is evaluated on an annual basis and measured against the targets set for the year. The remuneration packages are reviewed annually and adjustments to their remuneration are made based on not only on their individual performance and contributions in the preceding year, but also the Company's performance.</p> <p>The Financial Report 2019 does disclose the total remuneration of the key management personnel (as defined therein).</p>		
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>			
<p><b>Measure</b></p>	<p>: The Board will continuously annually review the requirement and the appropriateness of such disclosure.</p>		
<p><b>Timeframe</b></p>	<table border="1"> <tr> <td data-bbox="544 1164 963 1373"> <p>: Others</p> </td> <td data-bbox="963 1164 1418 1373"> <p>This was deliberated by the Board and the Board will continue to review it on an annual basis in its efforts towards the application of Practice 7.2.</p> </td> </tr> </table>	<p>: Others</p>	<p>This was deliberated by the Board and the Board will continue to review it on an annual basis in its efforts towards the application of Practice 7.2.</p>
<p>: Others</p>	<p>This was deliberated by the Board and the Board will continue to review it on an annual basis in its efforts towards the application of Practice 7.2.</p>		

**Intended Outcome**

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

**Practice 7.3 - Step Up**

Companies are encouraged to fully disclose the detailed remuneration of each member of senior management on a named basis.

<b>Application</b>	:	Not Adopted
<b>Explanation on adoption of the practice</b>	:	

### Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.  
The company's financial statement is a reliable source of information.

### Practice 8.1

The Chairman of the Audit Committee is not the Chairman of the board.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Chairman of the Audit Committee, Dato' Mohd. Rafik Bin Shah Mohamad is not the Chairman of the Board. This allows the Audit Committee Chairman to provide full commitment and devote sufficient time to matters under the responsibilities of the Audit Committee and to exercise independent judgment.</p> <p>The Audit Committee Chairman is an Independent Director and a qualified Chartered Accountant who is a member of the Malaysian Institute of Accountants ("MIA").</p> <p>The Chairman of the Audit Committee is responsible for ensuring the overall effectiveness and independent of the Committee. He ensures that :</p> <ul style="list-style-type: none"> <li>• the Audit Committee is fully informed and addresses the significant matters related to the Company's audit and its financial statements; and</li> <li>• the Audit Committee appropriately communicates its insights, views or any matters of concern relevant to its role, to the internal and external auditors, whichever relevant.</li> </ul>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**Intended Outcome**

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

**Practice 8.2**

The Audit Committee has a policy that requires a former key audit partner to observe a cooling-off period of at least two years before being appointed as a member of the Audit Committee.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	<p>The Audit Committee's Terms of Reference states that any former key audit partner is to observe a cooling-off period of at least two years before being appointed as a member of the Audit Committee.</p> <p><i>The Terms of Reference of the Audit Committee is available on the Company's website at:</i>  <a href="https://www.nestle.com.my/aboutus/investors/corporate_governance">https://www.nestle.com.my/aboutus/investors/corporate_governance</a></p>	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

### Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

### Practice 8.3

The Audit Committee has policies and procedures to assess the suitability, objectivity and independence of the external auditor.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Group's transparent and professional relationship with the external auditors is primarily maintained through the Audit Committee and guided by the principles of the Malaysian Code on Corporate Governance issued in 2017.</p> <p>The Audit Committee has in place a formal framework for the annual assessment of the effectiveness of the external audit process and quality of the audit is adopted by the Audit Committee, covering all aspects of the audit services provided by the external auditors. It covers the assessment on the suitability, objectivity, performance and independence of the external auditors. In carrying out the assessments, the Audit Committee works closely with the management, taking into account the following:</p> <ul style="list-style-type: none"><li>• the Audit Committee's own assessment; and</li><li>• the feedback from the senior finance personnel of the Company focusing on a range of factors the Audit Committee considered relevant to the audit quality.</li></ul> <p>As there will be a change of external auditors for 2020, it was of the view that there was no necessity to carry out a formal assessment of KPMG PLT. Nevertheless, the Audit Committee has been reviewing and assessing the work of the external auditors and has also obtained written confirmation from the external auditors, KPMG LPT that they have been independent throughout the conduct of the audit engagement in accordance with their professional standards.</p> <p>The engagement of the Company's proposed new external auditors, Ernst &amp; Young PLT has been reviewed by the Audit Committee prior to submission to the Board for approval and the Audit Committee is satisfied that the proposed new external auditors meets the criteria provided under paragraph 15.21 of the Listing Requirements.</p> <p>Further, in ensuring the independence of the external auditors, the Audit Committee does impose a requirement on the external auditors to rotate the audit partner responsible for the Company audit every seven years, in line with the Audit Partner Rotation requirements issued by MIA.</p>

	Having considered all relevant matters, the Board is satisfied that the external auditors' independence, objectivity and effectiveness have been maintained.	
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**Intended Outcome**

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.  
The company's financial statement is a reliable source of information.

**Practice 8.4 - Step Up**

The Audit Committee should comprise solely of Independent Directors.

<b>Application</b> :	Not Adopted
<b>Explanation on adoption of the practice</b> :	

## Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

## Practice 8.5

Collectively, the Audit Committee should possess a wide range of necessary skills to discharge its duties. All members should be financially literate and are able to understand matters under the purview of the Audit Committee including the financial reporting process.

All members of the Audit Committee should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>All members of the Audit Committee are financially literate, with extensive corporate experience and equipped with the required business skills. They are able to apply a critical view of the Company's financial reporting process and information and to effectively challenge and ask probing questions to the Management on the Company's financials to ascertain whether the financial reporting reflects the Company's operations and performance.</p> <p>The Audit Committee is chaired by an Independent Non-Executive Director, Dato' Mohd. Rafik Bin Shah Mohamad, who is a Chartered Accountant, a member of MIA and a Fellow of the Association of Chartered Certified Accountants (ACCA), United Kingdom. Another member, Tan Sri Dato' Seri Syed Anwar Jamalullail, is also a Chartered Accountant, a member of MIA and Certified Practising Accountant (CPA) (Australia). Whereas Tan Sri Datuk (Dr.) Rafiah Binti Salim was the Assistant Governor of the Central Bank of Malaysia and has vast experience in the financial field.</p> <p>All members of the Audit Committee have undertaken continuous professional development and in 2019, the various trainings relevant to their role as Audit Committee members are listed as below:</p> <p><u>Dato' Mohd. Rafik Shah Bin Mohamad:</u></p> <ul style="list-style-type: none"><li>• Governance Symposium</li><li>• Audit Committee Conference 2019</li><li>• Case study workshop for Independent Directors.</li><li>• CG Advocacy Programme – Cyber Security in the Boardroom</li><li>• Session on Corporate Governance &amp; Anti-Corruption</li><li>• Workshop on Corporate Governance</li></ul>

	<p><u>Tan Sri Dato' Seri Syed Anwar Jamalullail:</u></p> <ul style="list-style-type: none"> <li>• Workshop on Corporate Governance</li> <li>• PNB Leadership Forum</li> </ul> <p><u>Tan Sri Rafiah Salim:</u></p> <ul style="list-style-type: none"> <li>• Reading the Signs : The Next Financial Crisis &amp; Potential Impact on Asia.</li> <li>• CG Watch, How Does Malaysia rank.</li> <li>• Sustainability Inspired Innovation : Enabler of the 21st Century, Thought Leadership Series.</li> <li>• International Directors' Summit 2019.</li> <li>• Workshop on Corporate Governance.</li> </ul> <p>The full list of trainings that the Audit Committee members have attended can be found on page 14 of the Company's Corporate Governance &amp; Financial Report 2019.</p>	
<p><b>Explanation for departure</b></p>	<p>:</p>	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<p><b>Measure</b></p>	<p>:</p>	
<p><b>Timeframe</b></p>	<p>:</p>	

### Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

### Practice 9.1

The board should establish an effective risk management and internal control framework.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board and the management follows as a guide, the contents of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers. In addition, the Company and the Nestlé Internal Audit have in place, risk management guidelines, control measures and processes throughout the Group.</p> <p>Risk management is an essential part of corporate governance and it is firmly embedded in the Group's key processes through its Risk Management Framework. The Board is responsible for ensuring that sound and effective risk management and internal control systems are maintained, while management ensures the sufficient and effective operational controls over the key business processes are properly implemented with regular review and update.</p> <p>Risk management practices are inculcated and entrenched in the activities of the Group, which requires, amongst others, establishing appropriate risk tolerance thresholds, actively identify, assess, monitor and proactively managing key business risks faced by the Group.</p> <p>The Company adopts the Enterprise Risk Management framework, which identifies the potential major risks to the Group, implementing the mitigating measures and monitors the actions to minimise the risk.</p> <p>Nestlé Internal Audit reviews the effectiveness of the system of internal control in mitigating risks and monitors the Group's risk profile and exposure.</p> <p>Risk Management and internal control principles, policies, procedures and practices are periodically reviewed, with the results thereof communicated to the Board through the Audit Committee to ensure their continuing relevance and compliance with current/applicable laws and regulations.</p> <p>Further details of the Company's Risk Management and Internal Control Frameworks can be found under the Statement of Risk Management and Internal Controls, on pages 33 to 38 of the Company's Corporate Governance &amp; Financial Report 2019.</p>

<b>Explanation for departure</b> :		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b> :		
<b>Timeframe</b> :		

### Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

### Practice 9.2

The board should disclose the features of its risk management and internal control framework, and the adequacy and effectiveness of this framework.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The features of the Company's Risk Management and Internal Control Frameworks and its adequacy and effectiveness can be found in the Statement of Risk Management and Internal Controls, on pages 33 to 38 of the Company's Corporate Governance & Financial Report 2019.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**Intended Outcome**

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

**Practice 9.3 - Step Up**

The board establishes a Risk Management Committee, which comprises a majority of independent directors, to oversee the company's risk management framework and policies.

<b>Application</b>	:	Not Adopted
<b>Explanation on adoption of the practice</b>	:	

### Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

### Practice 10.1

The Audit Committee should ensure that the internal audit function is effective and able to function independently.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p><b>Nestlé Malaysia Internal Audit Department</b></p> <p>The Nestlé Internal Audit (“NIA”) is aligned to the Malaysian Code on Corporate Governance. Nestlé Internal Audit (“NIA”) is administered as a department within the Finance &amp; Control function in the Group but reports functionally to the Audit Committee and the Nestlé Internal Audit (Center) of Nestlé S.A. in Switzerland, thus ensuring its independence.</p> <p>Its main role is to undertake independent and systematic reviews of the Group’s processes and guidelines and to report on their application and compliance. The outcome of the reviews are objectively reported to the management and to the Audit Committee, prior to the Board.</p> <p>Further details of the NIA can be found on page 28 of the Audit Committee Report and on pages 35 and 36 of the Statement of Risk Management and Internal Controls, of the Company’s Corporate Governance &amp; Financial Report 2019.</p>
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

## Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

## Practice 10.2

The board should disclose–

- whether internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence;
- the number of resources in the internal audit department;
- name and qualification of the person responsible for internal audit; and
- whether the internal audit function is carried out in accordance with a recognised framework.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Nestlé Internal Audit is led by Ms. Masita Mohamad Jalil, 45 years of age. She has served the Company for 17 years, eight years in the Internal Audit function, locally and internationally, and nine years in Business Controlling function.</p> <p>She is a member CPA (Australia), MIA and a professional member of the Institute of International Auditors Malaysia, and holds an Accounting and Finance Degree from Deakin University (Australia).</p> <p>Her team consists of six qualified auditors with various professional qualifications, namely Certified Fraud Examiner (US), Chartered Institute of Management Accountant (UK), Association of Chartered Certified Accountant (UK), professional members of the Institute of International Auditors Malaysia and Master of Business Administration.</p> <p>All internal auditors are free from any relationships or conflicts of interest, which could impair their objectivity and independence.</p> <p>The work of the Nestlé Internal Audit is in line with an established Internal Audit Charter and in accordance with the Standards for the Professional Practice of Internal Auditing Framework.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

### Practice 11.1

The board ensures there is effective, transparent and regular communication with its stakeholders.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board has in place an effective communication channel between the Company, its Shareholders and the general public.</p> <p>As part of the Company's commitment towards this objective, experienced members of the management are directly involved in the Company's investor relations activities, which is led by the CFO.</p> <p>Quarterly financial results are announced as early as possible and audited financial statements are published within three months after the end of the financial year. Quarterly statements are issued to keep the Shareholders informed of the performance and operations of the Company.</p> <p>The Company holds separate quarterly briefings for fund managers, institutional investors and investment analysts after its announcement of each quarterly results to Bursa. In 2019, the Company held four quarterly briefings and the Company also engaged with institutional investors on a regular basis. The quarterly briefings which are conducted by the CFO are intended not only to promote the dissemination of the financial results of the Company to fund managers, investors and the Shareholders but to also keep the investing public and other Stakeholders updated on the progress and development of the Company's business.</p> <p>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.</p> <p>The Board places great importance in maintaining active dialogue and effective communication with the Shareholders and investors, ensuring accountability and transparency to enable the Shareholders and investors to make informed investment decisions. In terms of disclosure of material information, the Board adopts a comprehensive, accurate and timely approach in compliance with the Listing Requirements and the Corporate Disclosure Guide of Bursa Malaysia Berhad.</p> <p>The Company's website at <a href="http://www.nestlé.com.my">www.nestlé.com.my</a> is a main channel for</p>

	<p>providing our Shareholders and other stakeholders with information on the Company's corporate governance structure, policies and systems. We recognise that not all the 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.</p> <p>The Company's AGM represents the primary platform for direct two ways interaction between the Shareholders, Board and the Senior Management Team of the Company and acts as a principal forum for dialogue with all the Shareholders for the Company and the Board to provide an overview of the Company's progress, and to receive questions from the Shareholders. At the AGM, the Shareholders actively participate in discussing the resolutions proposed or on future developments of the Company's operations in general. The Board, the Senior Management Team and the Company's external auditors, are present to answer questions raised and provide clarification as required by the Shareholders.</p> <p>A press conference will be held immediately after the AGM where the Chairman, CEO and CFO provide updates to the media representatives of the resolutions passed and answer questions on matters relating to the Company. The outcome of the AGM is announced to Bursa on the same meeting day.</p> <p>The Company's primary contact with the Shareholders is through the Chairman, CEO, CFO and 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.</p> <p>In addition, the Company also maintains continuous engagement with the other stakeholders, including but not limited to employees, consumers, regulators, suppliers and society in general. The full details of the Company's stakeholder engagements are available on pages 12 to 17 of the Company's Nestlé in Society Report 2019.</p>
<b>Explanation for departure</b> :	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>	
<b>Measure</b> :	
<b>Timeframe</b> :	

### Intended Outcome

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

### Practice 11.2

Large companies are encouraged to adopt integrated reporting based on a globally recognised framework.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board understands the efficacies of adopting the International Integrated Reporting Councils Integrated Reporting frameworks. The benefits of which include greater clarity on business issues and performance, more integrated thinking and management, and more efficient reporting for both users and preparers of reports.</p> <p>We continue to abide by the International Integrated Reporting Council ("IIRC") Guidelines on linking the financial and non-financial aspects of our business, to provide a clear picture of how we operate.</p> <p>For the year under review, the Company's Annual Review, the Corporate Governance &amp; Financial Report and the Nestlé in Society Report 2019 have all been guided by the &lt;IR&gt; frameworks, particularly those that relate to value creation, connectivity and strategy. Each year will witness further steps taken to eventually having a fully integrated report.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

### Practice 12.1

Notice for an Annual General Meeting should be given to the shareholders at least 28 days prior to the meeting.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Company's 2019 AGM was held on 25 April 2019 and the notice for the AGM was issued on 25 March 2019, more than 28 days prior to the date of the AGM, well in advance of the 21 days requirement of the Companies Act 2016 and the Listing Requirements. This allowed additional time for the Shareholders to consider the proposed resolutions tabled at the AGM and to make informed decisions accordingly. It also allowed the Shareholders to make the necessary arrangements to attend and participate in the AGM, either in person, through corporate representative, proxies or attorneys.</p> <p>The Company also distributed an Administrative Note together with the notice of AGM, which provides information to the Shareholders regarding the AGM details, and their entitlement as a Shareholder.</p> <p>The Notice of the 2020 AGM which will be held on 30 April 2020 is also given to the Shareholders more than 28 days prior to the AGM.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

### Practice 12.2

All directors attend General Meetings. The Chair of the Audit, Nominating, Risk Management and other committees provide meaningful response to questions addressed to them.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>All seven Directors including the Chairman of the Board, the Chairmen of the Board Committees attended and participated at the Company's AGM in 2019. The AGM is also attended by the representatives of the Senior Management Team and the external auditors.</p> <p>The Company's AGM acts as a principal forum for dialogue with the Shareholders and represents the primary platform for direct two-way interaction between the Shareholders, Board and the Senior Management Team of the Company. There was also a business presentation by the CEO.</p> <p>At the AGM, the Shareholders actively participate in discussing the resolutions proposed, raising questions, seeking clarification and raising concerns directly to the Directors. The presence of all Directors, including the CEO and CFO, the representatives of the Senior Management Team and the Company's external auditors ensured that meaningful responses were provided to the Shareholders.</p> <p>The Company's responses to the advance questions raised by the Employees Provident Fund and the Minority Shareholders Watch Group were also shared with the Shareholders in attendance.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

### Practice 12.3

Listed companies with a large number of shareholders or which have meetings in remote locations should leverage technology to facilitate–

- including voting in absentia; and
- remote shareholders' participation at General Meetings.

<b>Application</b>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	<p>Each year, the venue of the AGM is chosen in a centrally accessible location, which is close to public transportation and easily reached via major link highways.</p> <p>The Shareholders are given at least 28 days' notice of the AGM, which is sufficient time to make arrangements to attend the AGM.</p> <p>At the AGM, the Company has also adopted electronic voting for all its resolutions. Tricor Investor &amp; Issuing House Services Sdn. Bhd. and Coopers Professional Scrutineers Sdn. Bhd. have respectively been appointed as the e-voting administrator and independent scrutineers during the AGM.</p> <p>As an alternative practice, the Shareholders who are unable to make the journey are allowed to send a proxy in place to attend the AGM, to participate, speak and to vote on their behalf.</p>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	<p>In 2020, the Company is allowing the remote Shareholders participation and voting at its 36<sup>th</sup> AGM for individual Shareholders who are not able to be physically present at the venue of the AGM.</p> <p>It will be via a facility which is available on Tricor Investor &amp; Issuing House Services Sdn. Bhd.'s TIIH online website at : <a href="https://tiih.online">https://tiih.online</a>. Detailed procedures are provided to the Shareholders in the Administrative Note.</p> <p>There will be a live streaming of the AGM and Shareholders will be able to submit questions online and cast his/her vote online.</p>
<b>Timeframe</b>	:	Within 1 year

**SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PURSUANT  
CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA MALAYSIA**

*Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.*

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