08 REPORT

Nestlé

Creating Shared Value

Nutrition | Water | Rural Development

"The creation of long-term value is not conceivable without consideration of criteria such as economic viability, social equality and ecological sustainability."

Peter Brabeck-Letmathe
Chairman, Nestlé S.A.

Cover:
A wetlands conservation project by Nestlé (Malaysia) Berhad and WWF-Malaysia in Setiu, Terengganu helps ensure that the community enjoys a better quality of life, while providing the womenfolk with new and sustainable means of income. This is very much in line with Nestlé's philosophy of Creating Shared Value.

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Fast Facts

The Nestlé Group

- Founded in 1866 by Henri Nestlé
- World's largest food manufacturer, headquartered in Switzerland
- Present in over 100 countries
- Employs 276,000 people worldwide
- 456 factories in 84 countries
- Over 8,500 brands and over 10,000 different products
- Sales of 32 billion individual products each year
- World's largest private nutrition research capability based in Switzerland
- 24 R&D Centres worldwide
- RM5 billion investment annually on R&D

Nestlé Malaysia

- Established in Malaysia in 1912
- Leading Halal food manufacturer
- Employs 5,000 people
- Over 300 Halal products
- RM3.9 billion in turnover in 2008
- Public-listed on Bursa Malaysia since 1989
- Head Office based in Petaling Jaya, Selangor
- 7 factories and 6 sales offices
- 1 National Distribution Centre

Categories of Products in Malaysia

• Coffee and Beverages • Culinary Aids / Prepared Foods • Milks • Liquid Drinks • Junior Foods • Breakfast Cereals • Chilled Dairy • Ice Cream • Chocolate and Confectionery • HealthCare Nutrition • Performance Nutrition • Nestlé Professional

From the Managing Director

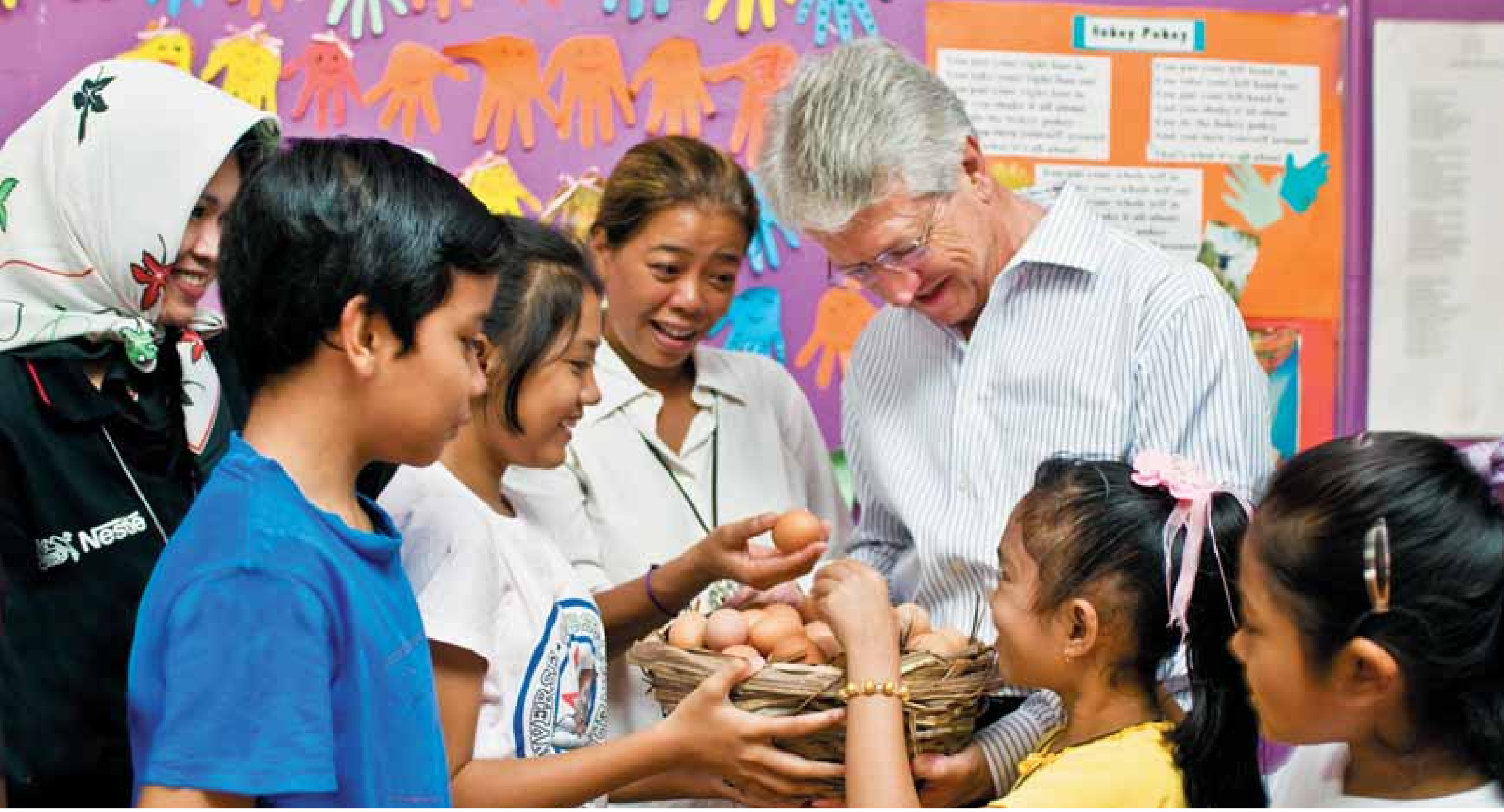
Our role in society goes way beyond that of a producer and marketeer of food and beverage products. In order to ensure the success of Creating Shared Value, we must engage with various stakeholders that represent different sectors of society to ensure that we remain close not only to the people we serve, but also to those who are vulnerable in society.

Walking the streets of Chow Kit with Dr. Hartini Zainuddin, Adviser of Rumah Nur Salam, a shelter home for neglected children in the area, Mr. O'Carroll gains an insight into the undesirable activities the children are exposed to.

Since 1912, Nestlé has built the trust among Malaysian consumers through our products and activities and many of our brands have become household names. It is certainly our intention to continue our journey to nourish and improve the quality of lives of Malaysians through our Nutrition, Health and Wellness vision. As the largest food and beverage company in the country, we are committed to Nourish Malaysia in every aspect. We have been here for the past 96 years and we want to continue to bring value to the local communities that we engage with, in fulfilling our social, economic and environmental commitments.

One of the biggest challenges for any company is continuing its corporate responsibility commitments when the effects of an economic downturn can threaten profit margins and bottom-lines. When cost cutting measures are implemented, and jobs are at risk, social responsibilities are often put on hold or overlooked totally.

Nestlé has had to face challenges too and has experienced unforeseen external cost pressures as a result of fluctuating prices of commodities and



The children of Rumah Nur Salam showing their appreciation over Nestlé's contribution of more than 1,000 eggs, under the ROCKS Eggxtra Nourishment programme which encourages Nestlé employees to contribute eggs to nourish the less privileged.

increasing costs of other input prices such as packaging materials. Our challenge is to balance the interests of all our stakeholders: our responsibility to provide good returns to our shareholders and / or protect local consumers from the burden of product price increases.

Providing value for every Nestlé product, maintaining the quality and improving nutrition and health benefits are commitments we have made in line with our promise to be the recognised leader in Nutrition, Health and Wellness. We have taken this a step further by introducing a range of Popularly Positioned Products (PPP) which makes affordable nutrition accessible to the majority of the population. This is a good demonstration of Nestlé's corporate responsibility (CR) concept of Creating Shared Value (CSV) which advocates that in order for the Company to enjoy sustainable business in the future, we must create long-term value for our shareholders while at the same time create value for society.

We are well aware that our role in society goes way beyond that of a producer and marketeer of food and beverage products. In order to ensure the success of CSV, we must engage with various stakeholders that represent different sectors of society to ensure that we remain close not only to the people we serve, but also to those who are vulnerable in society.

Nestlé products make-up approximately 12% of the average food basket in Malaysia which makes many of our brands an integral part of Malaysian households. The trust that consumers have in the quality and safety of our products is never compromised. Trust can sometimes be vulnerable when threatened with a food safety issue such as the melamine contamination crisis which caused panic among consumers around the world and plunged the food industry into turmoil. It is during a crisis like this that consumers can appreciate companies which are socially responsible and adhere to ethical practices which go beyond compliance.

This report, the third in the series, provides a summary of how Nestlé Malaysia strives to manage its business in a responsible and sustainable way. The feedback we received has helped us improve our reporting process and chart our progress in the community, workplace, marketplace and the environment.

We remain steadfast in our commitment to Nourish Malaysia as we make new strides in the area of Nutrition, Health and Wellness, and we will continue to create shared value to improve the lives of Malaysians through our CR commitments.

Sullivan O'Carroll

Nestlé, a Humanitarian Beginning

In 1867, Henri Nestlé, a trained pharmacist, developed a healthy and economical alternative source of infant nutrition for mothers who were unable to breastfeed with the ultimate goal to combat the problem of infant mortality due to malnutrition. This new product, Farine Lactee Nestlé, the first milk food, saved the life of a premature infant who could not be breastfed.

Over 140 years later, Nestlé continues with our founder's legacy – to improve lives – and this is embedded within our values and corporate business principles.

The "Nest" – the Pride of Nestlé

Henri Nestlé showed early understanding of the power of branding and had adopted his coat-of-arms as a trademark in 1867. Translated from German, Nestlé means "little nest", and the now-famous symbol is universally understood to represent warmth, security, nourishment, family togetherness, nurturing and caring values to this present day.

The lives of these traditional red rice farmers in Serikin, Sarawak have been impacted positively by Nestlé's unique contract farming scheme, which helps create new income opportunities for the farmers in line with Nestlé's concept of creating shared value.

What Corporate Responsibility Means to Us

"The unique role of business is value creation, that is, in order to develop a successful long-term business, we must go beyond compliance and sustainability, and actually create value for society."

Peter Brabeck-Letmathe
Chairman of Nestlé S.A.

Nestlé was founded on social responsibility, sound human values and principles more than 140 years ago. To us, corporate responsibility is not something that is imposed from the outside but is an inherent part of our business.

At Nestlé we believe that our business can only bring long-term value to shareholders if it also brings value to society. This is Nestlé's concept of corporate responsibility or better known as "Creating Shared Value".

We evaluate all our commitments regularly to ensure that the investments made are good for the Company and for the community we operate in. We try to bring value to the farmers, our suppliers, to our employees and the other parts of the society, treating the environment in a way that preserves it. A fundamental Nestlé Corporate Principle states that the Company will not sacrifice long-term development for short-term gain to ensure business sustainability and fulfill our commitments to our shareholders.

Creating shared value can encompass many areas. For instance, improving the nutrition knowledge of our consumers will empower them to make healthier choices, while for Nestlé we invest in products with nutritional benefits that can improve our long-term profitability through consumer demand. Please refer to further examples below.

To prioritise what is needed to address the more pressing needs of our community, we take the United Nation's Millennium Development Goals as a basic guide to attain our objectives in pursuit of shared value creation.

Examples of Shared Value Creation at Nestlé Malaysia

	Commitment to Halal	Conserving the Wetlands in Setiu	"Nourishing Malaysia"
Value chain impact	Purchasing & Good Manufacturing Practices	Sustainable Business Practices	Promote Nutrition, Health and Wellness
Growth context	Improve innovation technology and supplier development through Halal knowledge	Better understanding on environmental matters	Innovate & renovate nutritious and healthier products using R&D expertise
Nestlé benefit	Profitable growth through sales & exports of Halal products	Build goodwill with key stakeholders & develop consumer base	Profitable growth from high quality and value added products including PPP
Society benefit	Consumer trust and confidence on quality and peace of mind for Muslim consumers	Develop sustainable livelihoods through transfer of knowledge while conserving natural habitats	Meeting consumers' needs for healthier options in line with MOH's 10-Year Nutrition Action Plan

FROM LEFT:

Apart from increasing the environmental awareness among the Setiu community, Nestlé partners with WWF-Malaysia to create sustainable livelihoods for the villagers of Kg. Mangkuk.

MILO touches the hearts of Malaysians through its support of numerous youth and sports development programmes, as well as sampling activities.

The farmers of Bukit Awang, Kelantan are proud that their chillies are used in the production of MAGGI Chilli Sauce which are exported to international markets. The project was also accorded the SALAM accreditation for excellence in Malaysian farming practices.

Our volunteers, under the Nestlé ROCKS employee volunteer programme spreading the joy of Christmas by spending some time with the boys from Agathians Shelter, an orphanage for abandoned children.

Any CR project undertaken has to support sustainable development and achieve one or more of the UN Millennium Development Goals. We regard the attainment of the UN Millennium Development Goals as important objectives for improving communities and the goals are as follows:

a) Eradicate extreme poverty and hunger
b) Achieve universal primary education
c) Promote gender equality and empower women
d) Reduce child mortality
e) Improve maternal health
f) Combat HIV/AIDS, Malaria and other diseases
g) Ensure environmental sustainability
h) Develop global partnerships

Contract Chilli Farming	Food Mentoring Programme for SMEs
Purchasing Practices	Good Manufacturing Practices
Agriculture and supplier development through transfer of knowledge	Improved food safety standards, legislation and Halal certification
Raw material access at specified quality and foreseeable price	Potential collaboration with SMEs for contract manufacturing or sourcing
Supplements income of farmers, reduces poverty in rural communities & reduces reliance on imports	Higher food production standards & consumer confidence for local food

We are well aware that there is a lot more to be done and much that we can learn, but we are steadfast in our commitment. Each and every employee at Nestlé has contributed in one way or another to our CR commitments and will continue to do so as CR is part of our DNA.

UN Millennium Development Goals

Our CR efforts can be categorised according to the UN Millennium Development Goals:

Community Development
- Poverty reduction
- Empower women

Nutrition, Health & Wellness
- Promote active and healthy lifestyles
- Reduce obesity & related diseases

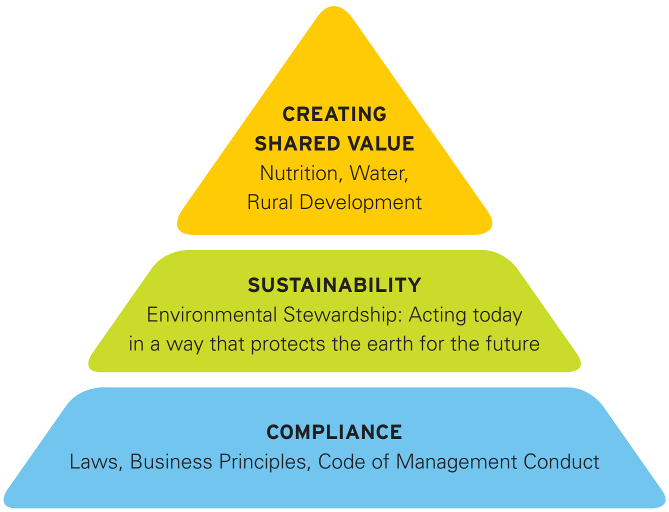
Develop Global Partnerships
- UNDP
- WWF

Environment
- Promote sustainable practices
- Reduce emissions
- Conserve energy
- Reduce waste

Education
- Equal opportunities for all

Employees
- Progressive HR policies
- Competitive remuneration
- Training & development

The Nestlé Creating Shared Value Model



"Nestlé has three areas of focus in value creation – nutrition, water and rural development – which are fundamental both to business success and to meeting pressing societal needs."

Paul Bulcke
CEO of Nestlé S.A.

Our Key Focus Areas in Creating Shared Value

Creating Shared Value represents our values and it is the way we conduct our business. It guides us to ensure that our business is ethical and economically viable, our actions are environmentally sustainable and socially responsible. With this in mind, Nestlé has focused on nutrition, water and rural development as areas of value creation for the Company and society. These areas are core to our Company's business strategy and essential to creating a healthier population.

As the world's largest Nutrition, Health and Wellness company, Nestlé has a responsibility to provide safe, good quality and value added products to help a wide range of people around the world meet their nutritional needs to enjoy a healthy lifestyle. Supported by the Nestlé Research Centre in Lausanne, Switzerland the world's largest private nutrition R&D organisation, the Company is in a strong position to realise its vision to be the recognised expert in Nutrition, Health and Wellness. Furthermore, local consumer insights put us in a better position to meet appropriate nutrition needs and adapt our product formulations to suit local taste preferences.

One of the biggest threats for the Company is the challenge of water scarcity, which is already evident in many parts of the world, suffering from drought and water shortages. If the water issue is not successfully managed, it can result in food shortages which can lead to increased food prices and nutritional insecurity. As a leading food company, Nestlé is concerned about the potential for this "food crisis" to become a longer-term global crisis in water and food security which could have serious consequences on society and our business.

Another area of attention for Nestlé is developing the rural community to ensure that they too have access to nutritional products, both from an affordability and availability perspective. In this respect, economic development and education in rural areas are key to improving the lives of the communities including reduction of poverty and improvement in nutrition and health.

We regularly evaluate the CR work we invest in to ensure that we are led by the principle that our success in creating value for our shareholders as well as for society will result in a win-win situation. In an effort to clearly map out the work that we do, the scope of our CR efforts are segmented broadly into these 4 areas:

1) Our Respect and Care for the Community
2) Our Commitment to the Environment
3) Our People and the Workplace
4) Our Consumers and the Marketplace


Nestlé
Community and Kids

Sharing

The true spirit of Creating Shared Value is to build and share our success with the community. Through our corporate responsibility initiatives, Nestlé has not only touched but also improved the lives of many underprivileged communities in Malaysia, which include the physically and mentally challenged.

Our Respect and Care for the Community

Guided by the UN Millennium Development Goals, which prioritises what is needed to address the most pressing needs of the society by focussing on poverty reduction, education and health issues, environmental sustainability and strategic partnerships to drive this further, we are able to achieve the desired results for our efforts.

Building Sustainable Livelihoods

One of our successful programmes to help in poverty reduction has been the contract farming initiative which has made a substantial impact on the lives of farmers who participated in this programme. Nestlé has a long history of helping farmers which has had a positive long-term impact on economic and environmental development and improved standards of living in rural communities.

The farmers who participate in the contract farming programme are taught about environmental awareness and have to ensure Good Agricultural Practices (GAP) which assures that safe and sustainable farming is carried out. When hard-core poor farmers in rural Kelantan who are part of the Nestlé Contract Chilli Farming scheme subscribe to GAP, it means that there is already significant progress being made, as Creating Shared Value additionally means treating the environment in a way that preserves it. For Nestlé, the value is a reliable source of raw materials at the quality needed to manufacture the relevant products. Our commitment to using local agricultural raw materials where feasible is also an important contributor to sustainable development.

Recently, the farmers in Kelantan were given an additional boost with a pledge for technical support for a Chilli Puree Project, which helps stabilise farm-gate prices, minimise wastage of fresh chillies, while creating new income opportunities for the farmers.

Similarly, the Red Rice initiative in Sarawak has given local farmers the opportunity to be part of Nestlé's supply chain, as it is a key raw material used in the manufacture of a range of infant cereals, which is produced for the region.

FROM LEFT:

The Nestlé contract farming scheme of traditional red rice in Serikin, Sarawak strives to improve the standard of living and livelihoods of the farmers in a sustainable manner, create opportunities and boost income levels.

Group Corporate Affairs and Wellness Director Tengku Marina Tunku Annuar Badlishah engaged in conversation with a resident at the Little Sisters of the Poor, home for the elderly during a Nestlé ROCKS community event.

Our Nestlé volunteers gently ferrying more than 2,000 eggs which were collected under the ROCKS Eggxtra Nourishment Project to one of the 30 beneficiaries under Nestlé's care.

Pre-school children of Kg. Keranaan, Sabah now have a kindergarten in their village where they can learn in a conducive environment, with some help from Nestlé and Raleigh.

Equal Opportunities in Education

In addition to agricultural-related activities, Nestlé also supports equal education opportunities, especially for communities in rural areas who lack basic facilities for education. Nestlé believes that education is a great enabler which helps break the poverty cycle and aids in rural development, and has embarked on many education initiatives for underprivileged children, single mothers and the disabled.

Nestlé also nourishes those in need by providing monthly food aid and currently, 30 charitable organisations are beneficiaries of this programme and receive basic nutrition for those in their care, in particular the orphans, the aged and the underprivileged.

Nestlé's Employee Volunteer Programme

While food and monetary contributions will go a long way, what is also important for the less fortunate, is care, attention and time. The Nestlé Reaching Out to Communities and Kids (ROCKS) employee volunteer programme, which was initiated in 2005, aimed at encouraging employee involvement in the communities where the Company operates, initiated several activities to further nourish and assist at selected organisations. A notable activity by Nestlé ROCKS was the unique Nestlé Eggxtra Nourishment initiative, which aims to collect fresh eggs to provide additional nourishment in meals.

In its first "egg drive", ROCKS succeeded in collecting over 1,000 fresh eggs from Nestlé employees which was presented to Rumah Nur Salam, a home for neglected children in the Chow Kit area. The second collection was equally successful and plans are underway for a monthly drive. The home is among the 30 charitable organisations which Nestlé supports, and where its employees can spend their 16 hours of "time off" each year to volunteer their time.

Conserving

Nestlé's commitment to environmentally-sound business practices is not an obligation but a part of our day-to-day operations. Strict measures are taken to minimise any negative effects on the environment. As most of our raw materials are agriculture-based, water sustainability remains a concern for us as it has an impact on the future of our food security.

Our Commitment to the Environment

FROM LEFT:

Nestlé places great importance on water and its management and related issues, because it has a vast impact on the sustainability of our business to continue providing food and beverage products that are safe and of high quality.

All our manufacturing facilities continuously find ways to implement conservation efforts and treatment of waste to generate internal savings as well as to protect the environment.

Nestlé and WWF-Malaysia are jointly involved in the re-planting of mangrove trees in the Setiu wetlands as part of conservation efforts.

Nestlé supports the villagers of Kg. Mangkuk in Setiu, Terengganu to use natural resources available to help sustain their livelihoods with activities such as basket weaving and production of local snacks.

Since its early days, Nestlé has been committed to environmentally sound business practices and continues to make substantial environmental investments to improve its performance in environmental management. We strongly believe that our contribution in sustainable development will help us meet the needs of the present without compromising those of future generations.

Protection of the environment is clearly embedded in our Corporate Business Principles, while the Nestlé Policy on the Environment underlines this commitment. In addition, Nestlé fully supports the United Nations Global Compact's three guiding principles on the environment which are:

- Supporting a precautionary approach to environmental challenges
- Undertaking initiatives to promote greater environmental responsibility
- Encouraging the development and diffusion of environment technologies

Water Management

Although climate change has been a topic of great interest and debate over the past few years, Nestlé views the water scarcity issue with greater urgency and is actively taking steps to bring awareness and change in water conservation and management. The United Nations Development Programme (UNDP) echoes our concerns by stating: "Water plays a pivotal role for sustainable development, including poverty reduction. Given the importance of water to poverty alleviation, human and ecosystem health, the management of water resources becomes of central importance."

As a food and beverage company, Nestlé is dependent on access to clean water to continue providing safe and high quality foods to our consumers around the world. Hence, water availability – both quantity and quality – impacts our business in multi-faceted ways, and it is in our interest to limit consumption and waste of the resource.

In Malaysia and other Nestlé operations globally, our efforts have resulted in a corresponding decrease in the consumption of water in Nestlé's manufacturing operations vis-á-vis our growing production.

We aim to reduce the amount of water used per kilo of food and beverage we produce. This is not all, as we also try and ensure that the water we discharge is clean and managed responsibly within the environment. We also promote water conservation methods with farmers and the local community.

Internally, we have a programme in place to reduce our water consumption by 5% every year. We are working towards this goal and the overall trend for the past 6 years has shown a steady reduction of water consumption of more than 3.5% annually.

The basis for all water management activities is the Nestlé Water Policy – Water Resource Guidelines for Sustainable Management, which serves as a reference point for all managers, and is implemented at the factory level through the Nestlé Environmental Management System (NEMS) that defines and monitors strict criteria for compliance at all Nestlé factories. NEMS is fully aligned with the ISO 14001 standard for environmental management.

Through NEMS we ensure environmentally-friendly production techniques and ways to recover by-products, as well as processing methods that minimise water and energy consumption. Innovation and technology are important tools in sustainability development, as better technology means improved operational efficiency.

Externally, we have forged a partnership with the World Wildlife Fund For Nature Malaysia (WWF), to conserve the Setiu Wetlands, which not only is rich in natural resources, but also acts as a natural filter of pollutants and provides flood control for the area. (Refer to Case Study No. 2)

At Nestlé, we believe that targets alone are insufficient, as there has to be accountability and reporting. The ability and willingness to share such information further demonstrates our commitment to transparency and accountability attributes which are essential to any company that aspires to the highest standards of corporate citizenship.

N.B. Nestlé S.A. is a founding signatory of the UN Global Compact CEO Water Mandate, launched at the UN Global Compact Leaders' Summit in Geneva in July 2007.

To be aligned to internationally recognised environmental management system standards, we are seeking external certification of ISO 14001 for all our factories, which will provide a common language and help better demonstrate compliance to our stakeholders.

The Nestlé Environmental Management System - NEMS (GI-14.001)

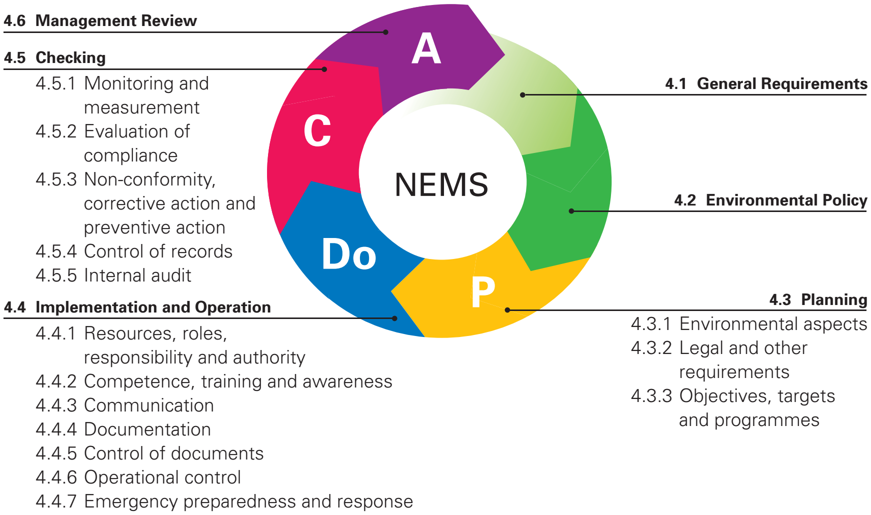
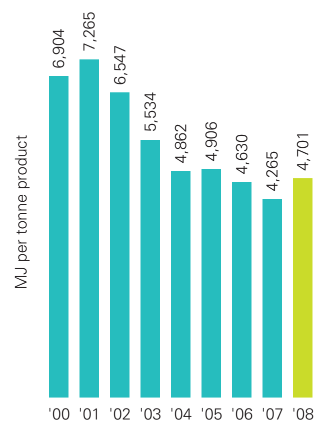


Chart 1
Energy Consumption



In addition to NEMS, we enforce a range of internal technical performance standards; most of which meet or exceed Government regulations. Most notable being the Environmental Minimum Technical Requirements, which sets standards in areas such as energy and water use efficiency, waste management, waste water treatment and air emissions to name a few.

We ensure compliance with these requirements with a comprehensive audit programme encompassing management, technical performance and plant safety. Additionally, performance to reduce our environmental impact is tracked with a range of indicators on a monthly basis, with overall annual figures reported to our corporate headquarters in Switzerland.

The Integrated Management System (IMS) is a consolidated management system with a unified single process aimed at eliminating duplication and inefficiency that arises from separate implementation of each area of Safety, Health and Environment (SHE) and food safety in Nestlé. ISO 14001 is one of the key components that is to be incorporated into the IMS certification.

Based on an internal road-map, all factories in Malaysia will be IMS certified by the end of 2008. The IMS certification includes 3 systems as below:

- Food Safety Management System
- Environmental Management System
- Occupational, Health and Safety Management System

There has been a significant increase in capital investments related to additional production capacity; a trend which began in 2007. As a result of commissioning and start-up activities, specifically in the Shah Alam and Kuching factories, the consumption of energy and water as well as air emissions has increased.

Process and product validation as well as extensive cleaning cycles require the use of energy and water without generating saleable products. However, in some areas not affected by commissioning activities, we have seen a significant reduction in both energy and water consumption due to continuous improvement efforts and optimised production runs.

1. Energy Management & Air Emissions

- Energy Management saw an increase of 10.22% (4,701 MJ per tonne product in 2008) compared to 2007 data (Energy Consumption 4,265 MJ per tonne product). (refer to Chart 1)
- Air emissions saw an increase of about 14.89% (0.54 SO_x per tonne product in 2008) in SO_x per tonne of product compared to 2007 data (0.47 SO_x per tonne product). (refer to Chart 2)
- CO_2 emission saw an increase of about 2.07% (193 CO_2 in 2008) per tonne of product compared to 2007 data (197 CO_2). (refer to Chart 3)

2. Water Management

- For water management, 2008 saw an increase of 4.11% (5.56 M^3 in 2008) per tonne product compared to 2007 (5.34 M^3). (refer to Chart 4)

Chart 2
Air Emissions

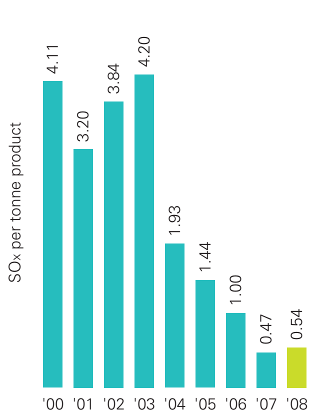


Chart 3
Air Emissions

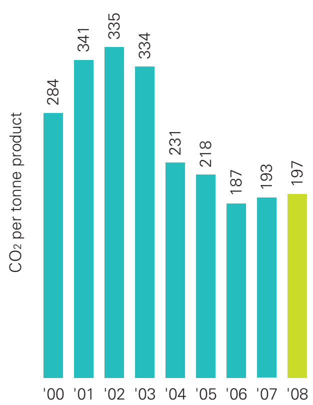


Chart 4
Water Consumption

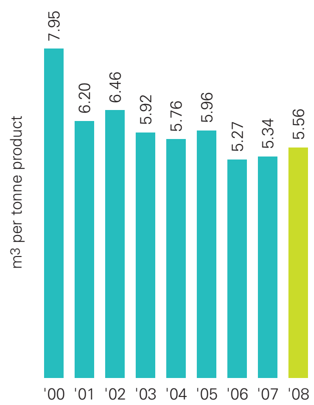
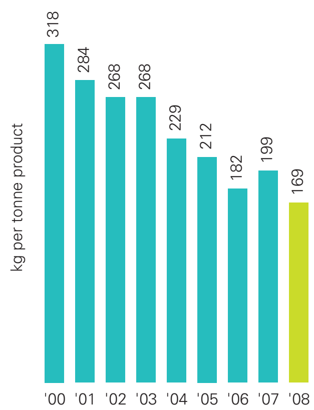


Chart 5
Packaging Material Usage



Waste Management

Nestlé Malaysia has implemented Integrated Waste Management for all the factories together with the Central Returns Warehouse (CRW) in Klang, which ensures that all 3 key areas are handled by the same entity - Destruction, Disposal & Waste Management On Site, Animal Feed Sales and Scrap Material Sales.

Apart from the factories, the CRW will also need to report their figures on solid waste disposal once the Integrated Waste Management is fully operational.

In 2008, the CRW disposed to the Landfill 1,300 tonnes or 46% lower than the 2007 levels due to reduced market returns and internal recycling efforts. Over the last four years, CRW has recovered 5,000 tonnes of materials for recycling and for 2009, this is expected to increase by 15% over 2008; attributable to the introduction of new machinery to crush tins of liquid milks, drinks and RTD tetra packs. Apart from the load reduction at the Landfill annually, there will also be productivity improvement and increased recycling.

As part of its "Green Supply Chain" initiative, all recyclable packaging materials (plastics, cardboard, tins, aluminium and glass) are sold to recyclers. Expired products are sold to contractors for conversion into animal feed. Materials which cannot be recycled are properly disposed of at the Landfill under strict control.

Packaging

Packaging plays an important role in ensuring that the nutritional value and quality of the product is guaranteed throughout the shelf-life; it prevents wastage due to physical damage and foreign contamination while meeting consumers' expectations on functionalities.

Post-consumer packaging waste reduction remains a major concern to Nestlé and is an important consideration in our packaging innovation and renovation programme.

Optimisation of packaging material usage in 2008 saw the reduction of about 10% in packaging material usage per tonne product compared to 2007 data (180kg per tonne product against 199kg in 2007).

Our source reduction activities include many individual improvements that are often unnoticed by the consumer, one good example is our newly designed MAGGI Noodle shipping case which increased the packaging configuration from 30's to 60's, and collectively represented significant savings. In 2008 alone, our source reduction projects further reduced packaging material usage by about 313 tonnes per year.

In line with the Nestlé Global policy, we support the use of recycled materials. We have completed the conversion of the MAGGI Hot Cup which uses a thin-wall plastic cup (20% lighter) and is paired with recycled cardboard to provide rigidity and heat insulation.

Striving

Our principal assets are not office buildings, factories or even our brands. Rather, it is the fact that we are a global organisation comprising of diverse nationalities, religions and ethnic backgrounds all working together under one single unifying corporate culture. At Nestlé, we strive to ensure our dedicated and qualified team achieves a good work-life balance.

Our People and the Workplace

Trust

We earn trust from each other, consumers and business partners with our competence, honesty and integrity.

Respect

We respect and care for our people and their diverse cultures, religions and traditions.

Involvement

We are enthusiastically involved in proactive change to create sustainable and profitable growth.

Pride

We feel proud in passionately building successful brands through our people and the quality of all our activities and products.

Our corporate values of Trust, Respect, Involvement and Pride set the foundation for everything that we do at Nestlé, and is prevalent throughout the Company. The four core values shape our commitment to "A Heart for Excellence" which is a pledge by our employees to always strive for excellence in all that we do, with care and respect.

a heart for excellence
Nestlé

'A Heart for Excellence' logo shows of a very special bond where talent and skill converge, "arms" outstretched to each other in a picture of unity.

FROM LEFT, CLOCKWISE:

In the spirit of Trust, Respect, Involvement and Pride, the management team scaled and conquered the highest peak in South-East Asia, Mount Kinabalu in Sabah as part of our Wellness initiative.

The Nestlé Supermeet, a sports meet gathering more than 1,600 athletes from 13 contingents in Malaysia and Singapore, aims to unite the teams and build a spirit of esprit de corps.

In line with promoting Nutrition, Health and Wellness, we launched FitNest, a gymnasium at our Head Office to encourage employees to lead a healthy and active lifestyle.

Events such as the Nestlé Sales Convention provides our employees with the opportunity to bond and unite as one Nestlé family.

The Diabetes Alert campaign, an internal programme was conducted to provide employees with the relevant knowledge to better understand and prevent or manage diabetes.

Wellness at Work

It is crucial for our employees to contribute towards our corporate vision to be the leading reference company in Nutrition, Health and Wellness. With this in mind, the Company has put in place the Nutrition Quotient (NQ) Training, mandatory for all employees with the aim of giving them basic nutrition knowledge and understanding to empower them as our Nutrition, Health and Wellness (NHW) Ambassadors.

Nutrition knowledge is not enough and we encourage our employees to put into practice their nutrition knowledge and lead healthy lifestyles. We believe that a healthy workforce will lead to happy employees and improved productivity. To this end, employees can enjoy a host of initiatives and activities such as the 100 Days Wellness Challenge, the Nestlé Supermeet as well as those organised by the Nestlé Recreation Clubs and sports committees. In addition, employees benefit from health checks, nutrition advice and healthy recipes.

Training and Development

At Nestlé, we believe that training is essential for the development of all our people, who represent the backbone of the Company. 'Nestlé on the Move' helps our employees keep abreast with the most up-to-date and relevant competencies in view of their changing roles in the organisation.

As part of our Employee Value Proposition of Enriching Development, customised internal and external training programmes that focus on leadership competencies, functional competencies and personal effectiveness are conducted, and the year-to-date training is 18,894 man-days with a year-to-date number of staff trained totalled at 9,039 employees.

The Company has rolled-out various training programmes including promoting e-learning throughout the Company. More than 727 e-learning courses have been completed in 2008 with an average of 45 active users per month.

In 2008, Nestlé also set out to widen the Mission Directed Work Teams (MDWT) to extend beyond the Production Division, and some 30 new teams were formed. This will be progressively extended to other business units and divisions in line with the Nestlé Continuous Excellence (NCE) programme.

The Executive Diploma in Manufacturing Management (EDMM) – a collaboration with the Open University Malaysia – is an 18-month programme, which combines workplace and classroom learning for Nestlé's First Line Managers. In 2008, the target was to complete the EDMM pilot programme, which generated 48 graduates.

The strategic initiative to enhance our factory operations through the development of human capital saw the first batch of 48 participants receiving their Executive Diploma in Manufacturing Management from Open University Malaysia.

At Nestlé, safety in non-negotiable. Comprehensive safety measures are put in place to ensure that our greatest asset, our people are able to contribute and work in a safe environment.

A new initiative within the organisation is the establishment of the 'Team Room' - a virtual "on-line" environment which allow teams from regional sales branches, warehouses, factories and head offices – in Nestlé to work together efficiently and effectively regardless of geographic locations or time zones.

The Nestlé Continuous Excellence (NCE), which was launched in October 2008 is aimed at implementing Total Performance Management at all factories by 2013, and providing a lean Supply Chain in all business units by 2018.

The Nestlé Continuous Excellence initiative is:

- Consumer and Customer-focused
- Aligns Business and Operations Goals
- Develops leadership and competencies
- Has one Operating Model to improve performance
- Uses and applies world-class tools and best practices

As testament to the work we do, Nestlé has been invited to share its initiatives by way of talks and benchmarking discussions on Human Resource practices and Change Management by leading companies such as Petronas, Telekom Malaysia and other Government-Linked Companies (GLCs).

We also help ensure that the next generation of graduates is able "to plug and play", and regularly take interns to give them exposure. A Memorandum of Understanding was signed with Career Xcel under the auspices of the Ministry of Higher Education to help orientate and prepare undergraduates for the corporate world. Meanwhile, with the Workers' Institute of Technology, Polytechnic and Open University Malaysia (OUM) provides a corporate perspective and hands-on experience to students.

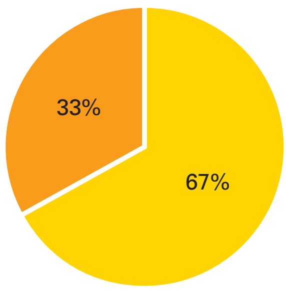
Workforce Talents

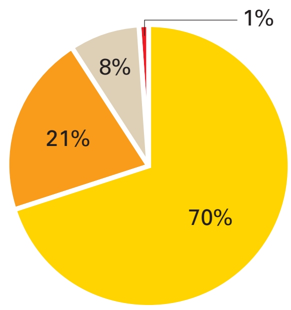
In 2008, Nestlé recruited a total of 1,417 new employees. Demographically our staff population reflects the diversity in terms of ethnic, gender and age spread (70% Malay, 21% Chinese, 8% Indian & Others, 1% Expatriate).

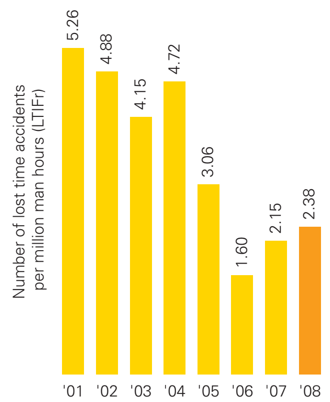
In terms of gender equality, as of December 2008, 67% of Nestlé Malaysia's employees are male and the remaining 33% female. At the Management level, the breakdown is 59% male and 41% female while at the Non-Management positions, the breakdown is 70% Male and 30% Female.

Your Voice 2007

In 2007, Nestlé conducted an Organisational Climate survey – Your Voice – which resulted in an outstanding participation rate of 91%. The high participation rate allows us to act with confidence on the feedback obtained to build on our strengths and improve on key areas which will help us achieve our objective of being a "Great Place to Work". In the survey, Nestlé is also favourably benchmarked against other High Performing Global Companies.







Safety at the Workplace

As stated in the Nestlé Policy on Health and Safety at Work, our people are our most valued assets and priority is given to protect them. Preventing work-related injuries and illnesses, and integrating the health and safety of our employees into all aspects of our business is an essential part of our strategy to become a trusted Nutrition, Health and Wellness company.

Our key safety performance indicator, the Lost Time Injury Frequency Rate (LTIFr), measures all absences from work of at least one day due to a work-related injury or illness – a widely accepted international standard that is based on the US-OSHA accident measurement standards.

Safety

– Total accidents which occurred from January 2008 till December 2008
  - Event Related + Non-event related + Fatalities = 35 cases
  - Medical treatment beyond first aid = 8 cases

In terms of safety in the Production Division, the lost time accidents per million man hours increased from 2.15 LTIFr in 2007 to 2.38 LTIFr in 2008.

Efforts were undertaken to rejuvenate Behavioural Based Safety (BBS) in the Production and Supply Chain Operations and there have been improvements in terms of Behaviour Observations (participation by employees) submissions.

The NESCAFÉ Plant has achieved ZERO (0) Lost Time Injury since 2004 (more than 5 years) since the introduction of the "5 Safety Initiatives" at the Shah Alam Complex. The 5 Safety (5S) Initiatives are Safety Training, Safety Meetings, Safety Audits, Log Out Tag Out (LOTO) and BBS, and focuses on leading indicators via a framework, quantifying best practices and boosting internal competitiveness among units by visually displaying performances. The goal is to integrate safety functions and activities across the entire organisation.

Additionally, in line with an initiative to ensure road safety best practices amongst all employees worldwide, we have established a Safe Driving Committee, which champions road safety initiatives to increase staff awareness on safe driving habits. Bi-weekly Safe Driving messages are also flashed via e-mail to all Nestlé staff; serving as a constant reminder on the importance of safe driving.

Supply Chain

In 2008, the Supply Chain's team of trainers provided training to distributors in an effort to upgrade the standards of Distributors' Warehouse Operations and add value by maintaining the quality of our products and increasing customer service levels. Training modules included Warehouse Operations, Handling Market Returns, Quality & Pest Management, Security and Safety, Health & Environment.

Synergising

Led by its vision to Nourish Malaysia, Nestlé synergises with Small and Medium Enterprises seeking to establish a foothold in the highly competitive food and beverage industry. Under the SME Mentoring Programme, which is now in its ninth year, Nestlé continues to share its resources, expertise and world-class best practices.

Our Consumers and the Marketplace

FROM LEFT, CLOCKWISE:

Every Nestlé product undergoes an extensive R&D process and stringent quality standards before it is launched, because we value the trust that our consumers have in us.

Our interest in Halal was borne out of social responsibility and respect for our Muslim employees and consumers, and today, we are beginning to appreciate the long-term investment we have made in manufacturing and marketing Halal products.

Though it is a global brand, NESCAFÉ is locally produced to meet the taste preferences of local consumers.

In support of the Government's efforts to combat non-communicable diseases in the country, Nestlé partnered with relevant NGOs to actively participate during the Nutrition Month Malaysia campaign to promote good nutrition in the community.

MILO ready-to-drink is now less sweet, but tastes better than ever! Packed with nutritious vitamins and minerals, it provides the necessary energy to bring out the champion in your child.

Nestlé consumers all over the world benefit from world-class manufacturing facilities, the best private R&D capability in food and nutrition, international quality and safety standards but with products catered to local preferences.

Consumers' trust has always been the key priority for Nestlé and we aim to nurture this trust by improving our range of products and services through better consumer insights and stakeholder feedback. Furthermore, we want to offer our consumers peace of mind when they consume our products, not only by making sure all our products are safe and meet the highest quality standards but also with the assurance that all products manufactured, marketed, imported or exported by Nestlé Malaysia are certified Halal by authorised organisations.

Nourishing All Malaysians

The consumer is strategically placed at the heart of our Nutrition, Health and Wellness Roadmap to indicate that our corporate vision is aimed at meeting the needs of the consumer – in taste, in nutrition profile and in enjoyment of every Nestlé product.

Our global investments in research and development (R&D) clearly shows Nestlé's commitment in innovating and renovating products based on scientific evidence and trials. When we convert this knowledge into products, consumers benefit from the nutritional value while Nestlé is able to grow its business.

With the increase in non-communicable diseases such as diabetes, hypertension, cardiovascular disease, as well as a rise in the number of overweight and obese Malaysians, Nestlé shares the concerns of the Ministry of Health on the state of health of the nation.

We continually review the nutritional content of our products; reducing public-health sensitive components such as salt, sugar and trans-fatty acids, while increasing others considered to be positive for health, such as calcium, iron, whole grains and fibre.

Supporting the Ministry of Health

Nestlé supports the efforts of the Ministry of Health's National Plan of Action for Nutrition Malaysia II (NPANM II) to address health issues related to nutrition affecting Malaysians.

TO ACHIEVE AND MAINTAIN THE NUTRITIONAL WELL-BEING OF MALAYSIANS (NPANM II) 2006-2015

SPECIFIC OBJECTIVES

- To improve nutritional status of all
- To prevent and control diet-related non-communicable diseases

ENABLING STRATEGIES

- Improving household food security especially among the low income
- Promoting optimal infant & young children feeding practice
- Preventing and controlling nutritional deficiencies
- Promoting healthy eating and active living
- Supporting efforts to protect consumers in food quality & safety

FACILITATING STRATEGIES

- Ensuring all have access to nutrition information
- Continuous assessment and monitoring of the nutrition situation
- Promoting continuous research and development
- Ensuring nutrition and dietetics are practised by trained professionals
- Strengthening institutional capacity in nutritional activities

FOUNDATION STRATEGY

- Incorporating nutrition objectives and strategies into policies and programmes of relevant agencies

Source: Ministry of Health, Malaysia.

The following measures have been taken by Nestlé to meet some of the provisions outlined in the NPANM II:

1. **Promote healthy eating and active living for all by developing a wider variety of healthy food choices**

   Nestlé's action:

   (i) Nestlé already provides a wide range of products and using our R&D capabilities, we are improving our current portfolio to make the products more nutritious without compromising on good taste; for example by using less sugar, salt and fats.

   (ii) The launch of Popularly Positioned Products (PPP) provides affordable nutrition to more Malaysians.

   (iii) The use of traditional local herbs such as Tongkat Ali, Ginseng, Ginger, Pegaga, etc.

2. **Support efforts to protect consumers in food quality and safety**

   Nestlé's action:

   (i) Provide educational materials to improve consumer awareness on nutritional labelling, food safety and consumer rights to safe and quality foods

   (ii) Support the implementation of the National Food Safety Policy and the National Plan of Action for Food Safety

   (iii) Produce and distribute educational leaflets on food labels and Halal for the benefit of the public

3. **Ensuring all have access to nutrition information**

   Nestlé's action:

   Establish nutrition promotion centres equipped with nutritionists and appropriate materials in addition to our nutrition advisory services via our Nestlé Consumer Services Toll Free Line: 1-800-88-3433 as well as our website at www.nestle.com.my. In 2008, Nestlé continued to educate consumers on per serving sizes of rice/noodles, vegetables and meat, and emphasised healthy meal plans which have a healthy fat ratio and are within 650kCal per meal.

4. **Promoting continuous research and development in food and nutrition**

   Nestlé's action:

   (i) Continue investing in the world's biggest private research facility in nutrition

   (ii) Collaborate and establish smart partnerships with academia and related food and nutrition organisations such as MARDI, UKM, NSM etc

5. **Ensuring that nutrition and dietetics are practised by trained professionals**

   Nestlé's action:

   (i) Provide more opportunities for postgraduate training for dietitians and nutritionists

   (ii) Intake of nutrition undergraduates from UKM and UPM for practical training

FROM LEFT:

We provide avenues and opportunities for our young consumers to showcase their talents and abilities through various activities and programmes.

Due to an overwhelming response, the OMEGA PLUS Walk-a-Mile event aimed at promoting heart health through walking, was held at several cities nationwide.

NESTUM Sarapan Berkhasiat provides affordable nutrition for the whole family, allowing more consumers to enjoy the high quality of our products.

The Nestlé Nutritional Compass contains information that help our consumers make informed choices that affect their health and nutrition.

In addition to the efforts above, Nestlé and its brands are continuously encouraging Malaysians to adopt active lifestyles. MILO has been active in promoting junior sports for over 50 years, while NESVITA OMEGA PLUS encourages Malaysians to walk-a-mile to improve their health.

Popularly Positioned Products

One of our key achievements in 2008 was the introduction of a range of Popularly Positioned Products (PPP) that offers Malaysians affordable nutrition and taste in their daily diets. Some of the products in the range are NESTUM Sarapan Berkhasiat and NESPRAY CERGAS. In addition to being affordable, the products also contain added nutrients such as iron which may be deficient in some pockets of our community.

Refer to Case Study 1 for more details on the PPP range

Survey on Eating Habits of Primary Schoolchildren

As a follow-up to the Nestlé-UKM survey which was commissioned in 2001, Nestlé invested in a second study to assess the current nutritional status among 13,000 primary schoolchildren in both Peninsular Malaysia and East Malaysia.

The study examines the nutritional status, eating habits, physical activity as well as nutrition knowledge and attitude of primary school children aged 6 to 12 years, and was conducted by a team of researchers from the Department of Nutrition and Dietetics, Faculty of Allied Health Sciences, UKM, and is expected to be completed by March 2009.

The results will be used to form the basis of a report on the nutritional status of primary school children in Malaysia, and appropriate intervention initiatives will be discussed with all relevant parties to improve the nutritional knowledge, attitude and practice among primary schoolchildren.

Communicating with Our Consumers

Communicating with consumers to understand their needs, respond to their enquiries or listen to their feedback is important to us. We do this via the Nestlé Consumer Services Centre, which is accessible during office hours on the toll-free line 1-800-88-3433. In 2008, the Centre received over 20,000 calls, with the highest number of inquiries (78.9%) attributed to the melamine scandal in China and new Nestlé product launches. With the Contact Centre, Nestlé was able to provide assurance to many concerned parents and consumers on the safety of Nestlé products during the melamine crisis.

Corporate Brand Monitor Study

In 2008, Nestlé conducted a Corporate Brand Monitor Study. When asked to think about companies making food and beverage products, the first company that came to mind unaided and spontaneously was Nestlé. 2008 also saw a significant increase in total spontaneous awareness for Nestlé amongst consumers in the Nestlé database.

A majority of those surveyed also had a favourable opinion/ impression towards the Company, and felt that Nestlé is an 'expert and leader in nutrition'; an imagery not currently owned by any other player yet.

"Dear Nestlé" Programme Rewards Consumers

"I try to benefit from every tip sent by Dear Nestlé. Before, I ate a lot of sweet things and junk food. Now I focus more on eating vegetables and fruits – trying to manage 5 colours a day. Thank you Dear Nestlé for making me more confident and healthy, and helping me achieve an ideal body shape."

Aida Ros Liana Desa, 26 years old

"Thank you so much for the ideas on healthy living. It is very useful to know what we can do to improve our lives, especially when it is related to eating."

Prem Kumar Gopal Chand, 45 years old

"The Nutrition articles are a good nutrition reference. Now I know the benefits of food that I eat every day. Keep up the good work!"

Rina Soh, 47 years old

The "Dear Nestlé" loyalty programme, which is in its 12th year, reaches out to Malaysian households; offering free nutrition advice, healthy recipes, product samples, discount vouchers and invitations to forums and cooking demonstrations. Members can also get interactive health reminders, submit recipe reviews or ask questions online.

As Nestlé Malaysia is at the forefront of promoting Nutrition, Health and Wellness, the "Dear Nestlé" programme is positioned as the nutrition and health partner which helps Malaysians achieve a well-balanced and healthy lifestyle.

There is also an online version of the mailer at www.nestle.com.my/dearnestle. The online version features more nutrition and health-related articles, recipes and interactive tools like Body Mass Index (BMI) and calorie calculators.

The programme has received very positive feedback from the consumers, especially in the areas of Nutrition, Health and Wellness.

Ensuring Freshness at All Times

Our commitment and rigorous approach to product freshness, combined with a robust performance measurement process has enabled us to deliver on our promise of Ensuring Product Freshness.

Freshness continues to be a priority in Nestlé Malaysia, to ensure that consumers are able to pick only fresh Nestlé products from the retail shelves when they visit their favourite hypermarket or sundry shop.

We work with our suppliers to receive the freshest possible raw materials and convert these raw materials into finished goods within the shortest time possible. We then ensure that our finished goods are shipped out to customers soon after production, in order to ensure that it is available on the retail shelves at the earliest.

Our effort is enhanced by a proprietary tool, developed in-house by our colleagues in the Nestlé Head Office in Switzerland. Information and Key Performance Indicators (KPIs) are readily available for us to manage our freshness focus proactively.

This commitment and rigorous approach to product freshness, combined with a robust performance measurement process has enabled us to deliver on our promise of Ensuring Product Freshness.

Stakeholder Engagement

As part of its on-going efforts to have a two-way dialogue with key stakeholders on its main impact areas, Nestlé Malaysia gathered its key stakeholders for a follow-up convening following the first one in October 2007. This was aimed at enabling the Company to hear their views, suggestions and concerns on the Company's public image, its business operations and corporate responsibilities. The convening also allowed Nestlé to update the stakeholders on the progress made since the last convening.

The session began with a presentation by the Managing Director of Nestlé Malaysia, Mr. Sullivan O'Carroll, who reiterated Nestlé's concept of Creating Shared Value and outlined the Company's approach to Nutrition, Water and Rural Development. He also elaborated on the Popularly Positioned Product range, which is aimed at providing consumers with affordable nutrition and taste.

During the stakeholder engagement session, he outlined the strides made since the last convening, where in response to suggestions that Nestlé take on a "Big Brother" approach, the Company has engaged more farmers under a contract farming scheme under the red rice project in Sarawak. Nestlé has also contributed significantly towards the development of the Halal food industry in Malaysia and provides support and advice as part of its collaboration with the Halal Industry Development Corporation (HDC).

Following his presentation, the stakeholders were divided to discuss 4 topics that are considered to be vital to the Company's operations and role in society :

1) Nutrition & Health
2) Sustainable Development / The Environment
3) Code of Conduct / Ethical Business Practices
4) Food Security and Safety

Based on the discussions from each grouping, the following are among the key suggestions made by the stakeholders who attended the convening:

Nutrition & Health

- Educate the public on nutrition and health, and this should not be limited to the benefits of Nestlé products but also promote the Food Guide Pyramid and encourage physical activity.
- Address public concerns on the rise of chronic diseases especially those affecting young children, and the increase in non-communicable diseases.
- Promote healthy eating to young children.
- Improve communication on Nestlé initiatives in NHW, for example the nutritional value of PPP range; Nutritional Foundation; 60/40+; etc.

Environment

- Educate the public on water conservation and promote appreciation of rivers and wetlands to change wasteful attitudes.
- Instill environmental awareness amongst children.
- Lead in 3R programmes and promote recycling, especially among employees and throughout the supply chain.
- Encourage suppliers and vendors to adopt good environmental practices.

Good Business Ethics

- Educate stakeholders on Nestlé Code of Business Conduct.
- Share experiences on ethical HR procedures in areas that can impact other companies.
- Continue collaboration with HDC to further develop the Halal food industry in Malaysia and promote the country as a regional Halal hub.

Food Security & Safety

- Share expertise in traceability among SMEs in the event of a product safety issue.
- Be more proactive to identify potential risks in food safety following the melamine issue.
- Encourage suppliers and vendors in supply chain to go beyond compliance in addressing food safety issues.

CR Case Studies

The following Case Studies provide insights into our key areas of focus – Nutrition, Water and Rural Development. It helps provide a better understanding of how we strive to create value while bringing long-term and meaningful change to society.

CR Case Study 1
– Nutrition, Health and Wellness

The Nutrition, Health and Wellness re-positioning of Nestlé is in response to demographic changes, the demands of hectic lifestyles, the increase in non-communicable diseases and the speed of communication and travel, amongst many other factors.

The Company is in full support of the Government's efforts to encourage healthier diets and active lifestyles to help counter problems associated with obesity, diabetes and cardiovascular diseases. We have made significant changes to improve our products' profile to complement the Government's efforts to create a healthier population.

The strategic re-positioning has also resulted in the Nestlé Nutritional Foundation (NF), which is a dynamic profiling approach to analyse the nutritional value of Nestlé products to support the constant optimisation of nutritional composition of products. A food or beverage product will only attain NF when all of its nutritional factors meet the criteria for its category.

The criteria used in the Nestlé Nutritional Foundation are established using the available recommendations for dietary intakes, issued by authorities such as World Health Organisation (2003) and the US Institute of Medicine (2006).

Some positive measures have been implemented to improve the nutritional profile of our range of products such as reduction of sugar, sodium and fats, the fortification of products as well as the introduction of Popularly Positioned Products (PPP); an affordable range with clear nutritional benefits that will ensure a larger segment of the population is able to enjoy our products.

"One of the main objectives of Nutrition Society of Malaysia (NSM) is to promote healthy nutrition in the community, in support of the Government's efforts to combat nutritional problems in the country. These include nutrient deficiencies as well as diet-related chronic diseases in the country such as obesity, diabetes, coronary heart disease, hypertension and certain cancers. Better integration and collaboration involving the private sector, exemplified by Nestlé Malaysia's support of Nutrition Month Malaysia 2008, enables various health promotion activities to reach a wider segment of the community and facilitate consumer empowerment to enable them to make better choices regarding their lifestyles and eating habits."

Dr Tee E Siong
President, Nutrition Society of Malaysia (NSM)

The PPP range strives to provide a more balanced diet by compensating for dietary deficiencies at reasonable cost, taste and convenience. In a small way, these products also support the Government's efforts to improve the nutritional status of all Malaysians.

How exactly is a PPP product formulated? This varies from market to market and is based on local considerations, food regulations, nutrient deficiencies as well as public health concerns such as infectious and non-communicable diseases.

The resulting product allows consumers to have affordable food options which cover a large part of their basic food needs to achieve an optimum level of nutrition. Through innovation, more cost effective ingredients such as those derived from plant sources, which have the right nutritional profile, have been used.

The PPP range in Malaysia was introduced in 2007 with NESTUM Sarapan Berkhasiat and NESPRAY CERGAS, to mention a few. Although a modest range at the moment, PPP will be developed to help improve nutritional status, growth and development.

The PPP range of products is among the many internal efforts undertaken by Nestlé to accelerate its evolution into a respected, trustworthy Food, Nutrition, Health and Wellness Company. In Malaysia, Nestlé remains committed to Nourishing Malaysia through products that contribute to better health.

"Freshwater habitat conservation projects such as what WWF-Malaysia is doing at the Setiu Wetlands in Terengganu requires goal alignment and long-term commitment from our partners, funders and the local community. With appropriate training and capacity-building programmes, the women of Setiu learn to appreciate the importance of sustainable wetlands management and gain the skills and knowledge to utilise natural resources to generate alternative income to improve their socio-economic conditions. There is still much to be done and we are glad to have an ally in Nestlé Malaysia to support the community development component of this project."

YBhg. Dato' Dr. Dionysius S.K. Sharma
Executive Director/Chief Executive Officer, WWF-Malaysia

CR Case Study 2 – Water

Water conservation is one of the three key areas of focus under Nestlé's Creating Shared Value strategy, as the Company is cognisant of the fact that the availability of water for the environment and human use is challenged by many factors such as population growth, pollution and increasing demand for water-intensive foods and lifestyles.

Engaging experts and stakeholders has helped Nestlé understand and further develop its understanding of potential roles and commitments on water. Nestlé constantly seeks ways to raise the bar further, both in terms of its operations as well as by contributing to positive developments in broader water management and approaches.

Internally for instance, Nestlé Malaysia has a programme to reduce water consumption by 5% annually and the overall trend for the past 6 years has shown a steady reduction of more than 3.5% annually.

Externally, the Company has worked on several initiatives by working with partners such as the World Wildlife Fund for Nature (WWF). The most recent collaboration is in Terengganu, aimed at conserving the Setiu Wetlands, which is not only rich in natural resources and vital for the fisheries sector, but also acts as a natural filter of pollutants and provides flood control for the area.

The Setiu Wetlands also serves as the habitat and nesting ground for Malaysia's largest breeding population of the critically-endangered painted terrapin, and is home to 29 species of mammals, 28 species of reptiles and 112 species of birds.

"From nothing, we now have a small business, as we were able to buy the necessary equipment with Nestlé's assistance. From the talks and expertise shared by Nestlé, the villagers also get more ideas on how to improve their businesses."

Rusnita bt. Ngah
Group Leader of PEWANIS
(Pengusaha Wanita Setiu – Women Entrepreneurs of Setiu)
Kg. Mangkuk, Penarik, Setiu, Terengganu

The main source of income of the Setiu villagers is derived from the wetlands resources; driven primarily by the womenfolk, who process and sell fishery products such as salted fish, dried anchovies and shrimp paste.

This project was the result of a survey, which Nestlé had commissioned, on the socio-economic needs and current conditions of the local community, to identify their capacity building needs. As mothers and co-income earners, the women assume an important role in the area's long-term sustainable development and were the stakeholders identified for the project.

The project aims to raise the awareness on the need for conservation of the Setiu Wetlands, while equipping the local women with entrepreneurship knowledge and skills which will allow them to begin producing and selling traditional products using natural resources sustainably derived from the wetlands.

Besides the opportunity for sustained livelihoods and better standards of living, the women are also targeted to help ensure that the fragile wetlands ecosystem is safeguarded.

The local women are trained in basic entrepreneurial skills, including marketing, branding and communication skills - which is also useful for the tourism industry, and taught to pass on their new knowledge and skills by becoming trainers to other women, which also ensures the sustainability of the project. Simultaneously the women are also trained on environmental awareness and encouraged to practise "green" practices in their food manufacturing business.

The project is on-going and aims to engage the locals to work together cohesively towards a common goal of better sources of income which will greatly impact the livelihood of the local community, which has been identified as one of the poorest districts in Terengganu. The initiatives in place will contribute significantly towards the conservation of the wetlands.

CR Case Study 3
– Rural Development

Conscious that education is a great enabler, which elevates the standard of living in a sustainable manner, helps break the poverty cycle and enables societies to thrive, Nestlé Malaysia has embarked on several initiatives aimed at eradicating poverty and promoting development in rural communities. The building of kindergartens in East Malaysia is one such example, as it helps address a key requirement for progress, while staying true to the objectives of the UN Millennium Development Goals.

Collaborating with Raleigh – a UK-based youth development NGO – Nestlé has to-date, built 4 kindergartens in rural parts of Sabah, in an effort to provide equal education opportunities for communities lacking basic infrastructure facilities. By providing facilities for pre-school education, Nestlé believes that it can provide the children of the community a head-start in life.

Villages in East Malaysia with the highest need based on the remoteness of the village, number of young children as well as the schooling facilities in surrounding areas, are first identified. Nestlé then funds the building of the kindergartens and equips it with teaching materials and furniture whilst volunteers from Raleigh erect the building. The training of a local to be a teacher ensures the viability and sustainability of the project.

Nestlé believes that this initiative creates value for the community, as good basic education will ultimately improve the quality of lives of the village community in a sustainable way. The kindergarten projects are also in line with Nestlé's efforts to contribute to the total development of the child.

The first Nestlé kindergarten, affectionately known as the "Nest", was built in Kg. Liu in 2005, followed by one in Kg. Saguon in 2006, Kg. Paus in 2007 and Kg. Keranaan in 2008. Each kindergarten project has the support of the local community, who takes immense pride in the fact that their young will now have a head-start when they commence their primary education. The bright yellow façade of the first Nestlé "Nest" has become the official colour for every kindergarten built thereafter, and most of these buildings take pride of place in their respective villages.

On average, annually, there are 25 pre-school children aged between 4-6 enrolled at the kindergartens. Some villages have higher enrolment numbers, attributable to the fact that children from the nearby villages travel daily to the village for their pre-school education. Nestlé personnel visit the kindergartens regularly to check on its upkeep as well as usage, while the teachers provide enrolment and progress reports.

A point to note is that the first kindergarten, which was established in Kg. Liu, was visited by officials from the Ministry of Education in November 2006, after having read about it in the local media. During their visit, they interviewed the two teachers, examined their record books and also observed some of the class activities. The Ministry officials were impressed with the curriculum and quality of the teaching and have since registered the school as a pre-school centre under the Ministry's umbrella.

Targets & Achievements

RESPECT & CARE FOR THE COMMUNITY – Education Provide education opportunities for the marginalised.		
What we set out to achieve	**What we have achieved to-date**	**Going forward**
Nestlé supports equal education opportunities, especially for communities in rural areas which lack the basic facilities for pre-school education for a head-start in life compared to their peers in more privileged areas.	In collaboration with Raleigh, Government agency (KEMAS) and local NGO (PACOS Trust) this initiative has identified and built 4 kindergartens in rural areas of Sabah to-date:	Work with Raleigh to set-up another kindergarten in 2009.
	Kg. Keranaan In 2008, a kindergarten was built to serve 40 pre-schoolers in this village of 700 people. 2 local women from the community were also trained to teach the children. **Kg. Paus** Built in 2007 to serve the Kg. Paus population of 800 people which till then only had a Primary School. The kindergarten also allowed for one of the young women from the village to be trained as a pre-school teacher. **Kg. Saguon** Established 2006 and has 23 children aged between 4-6 years old enrolled. It is run by a trained teacher and the village had sent another member of its community to be trained to assist the current teacher. In 2006, the school also organised a graduation for the older children in Kg. Saguon. **Kg. Liu** Built in 2005. In 2006, 27 local children aged 5 and 6 were enrolled in the school. Following a visit by officials from the Ministry of Education, the school has since been registered as an official pre-school centre.	Monitor progress and provide assistance where required for all the kindergartens.
	In addition to setting up these kindergartens, Nestlé has provided opportunities for local youth to participate in voluntary community projects with Raleigh through sponsorship of young Malaysians. Nestlé also provides food supplies for the volunteers to take on their expeditions.	Continue to sponsor local volunteers to be part of the Raleigh expeditions.

What we set out to achieve	What we have achieved to-date	Going forward
Provide physically and mentally challenged children with learning opportunities.	Established 4 Nestlé Learning Corners in Wisma Harapan Brickfields, Sekolah Khas Cheras and Sekolah Khas Klang for the Selangor and Federal Territory Association for the Mentally Handicapped and the Spastic Centre for the Spastic Children's Association of Selangor and Federal Territory. These Learning Corners are well equipped with the necessary learning aids for the physically and mentally challenged to ensure that they are given opportunities to improve themselves. Established bigger Nestlé Learning Centre at Wisma Harapan Brickfields Vocational Training Centre.	Invest in more Nestlé Learning Corners where needed and monitor the progress of the current Corners and update equipment where required. Plans are underway to assist in the setting-up of a canteen at the Sekolah Khas Klang. Nestlé is also looking into providing nutritional and menu planning support for the kitchen staff of the schools to ensure proper nutrition for the children.
Supporting the National Child Friendly Healthcare Association of Malaysia to improve the hospital environment for sick children to make it more child-friendly, in line with Ministry of Health's objectives.	In 2008, Nestlé sponsored another Play Therapy Workshop. This was organised in East Malaysia where local healthcare professionals were given training by experts from the Children's Hospital in Sydney. In 2007, Nestlé collaborated with the Association to organise a Play Therapy Workshop where experts from the Children's Hospital in Sydney were flown in to train local healthcare professionals. Established Family Friendly Corner at the Paediatric Institute, Kuala Lumpur Hospital. Established a Toy Library at the Occupational Therapy Unit, Paediatric Institute, Kuala Lumpur Hospital, for children with Down Syndrome and other debilitating conditions.	Continue supporting the Association.
Help schoolchildren particularly those in rural areas to improve their command of English.	In partnership with the British Council, Nestlé embarked on the "Click into English" (CIE) project which was supported by the Curriculum Development Centre of the Ministry of Education, to provide the necessary skills to enhance the English language teaching skills and aptitude of teachers via the use of ICT. CIE aims to bridge the digital divide and improve the level of English language proficiency amongst students in Malaysia. The pilot project was launched in Kedah and Terengganu.	Nestlé is currently revamping the website so that it can present this to the Ministry of Education for a nationwide roll-out of the project.

What we set out to achieve	What we have achieved to-date	Going forward
	KOKO Smart Start Camp with the New Straits Times and the Ministry of Education was aimed at improving the level of English language proficiency and stimulate interest in English, while enhancing public speaking skills amongst primary school students.	
Encourage reading habits among schoolchildren.	Collaboration with Nanyang Siang Pau for 5 consecutive years to inculcate the habit of reading amongst the younger generation through a Story Compilation Contest for Chinese Primary Schools.	Continue the highly successful programme in 2009.
Sponsor theatre classes for special needs children.	Under a special grant by Nestlé, the Jumping Jellybeans (JJB) continued their theatre training for special children at the Special Needs Learning Centre for autistic children. Theatre training for the children at MAGIC (Malaysian Association of Guardians for the Intellectually Challenged) also continued on a regular basis.	Much progress has been made with these special children and Nestlé will continue to support this programme.

Training & Mentoring

Improve technical skills and share knowledge with those in need.

What we set out to achieve	What we have achieved to-date	Going forward
Promote gender equality and empower women through training and education.	On-going support for e-Homemakers – a network of single mothers and underprivileged women who seek a better work-home life balance through flexible working options. One example of our support is the promotion and purchase of eco-baskets which are weaved by the SALAM women using recycled magazines. Nestlé also sponsors the group's newsletter and works with e-Homemakers to organise their Annual Mother's Day competition which recognises mothers who have defied all odds to make a difference.	To continue supporting the group and help them find ways to earn sustainable incomes.
Assist local SMEs to achieve world-class standards.	Through a mentoring programme which began in 1999, Nestlé shares technical expertise and knowledge with SMEs in the food industry to help them develop and meet future challenges in a competitive global business environment. The programme also fulfills Nestlé's commitment to develop the growth of the local food industry. To-date, more than 2,800 participants from over 1,580 companies across Malaysia including East Malaysia, have participated in the programme.	To continue mentoring the SMEs and move to a higher level by including new topics in the programme, especially those that focus on Halal development.

Disaster Relief

Nestlé is always at the forefront to assist victims who are impacted by natural disasters.

What we set out to achieve	What we have achieved to-date	Going forward
Provide assistance during disasters and natural calamities to relieve the burden of the victims and to ensure they remain nourished despite being displaced.	In times of need, the Nestlé team continues to provide nourishing food and beverages such as MILO, NESCAFÉ, MAGGI noodles and NESTLÉ Breakfast Cereals to the victims and relief workers of natural disasters which include floods and landslides.	To continue in these efforts and be able to provide aid effectively and swiftly.

Agriculture

Nestlé strives for continuous improvements in upstream supply chain by transforming traditional agricultural production activities into value added products.

What we set out to achieve	What we have achieved to-date	Going forward
Contract Farming is done when there is a need to procure specific quality and ensure reliable deliveries of locally-grown agriculture raw materials. Nestlé sources raw material needs from local origins, where available and economically feasible. Local sourcing of chilli to help boost income levels of farmers and promote Good Agricultural Practices (GAP).	Chilli contract farming was established in Kelantan in 1995. From the initial 4 farmers producing 16 metric tonnes of chillies on 4 acres of land, this has increased substantially, and in 2008, there were 300 farmers involved in the scheme, producing 800 metric tones on 300 acres of land. In 2008, the farmers were given an additional boost when Nestlé agreed to provide formal technical support for the Pertubuhan Peladang Kawasan Bukit Awang (PPKBA) Chilli Puree Project. A social report was conducted by Universiti Teknologi MARA for the Chilli project in 2006, which statistically showed the positive attributes of the whole project.	To continue to seek new avenues to expand this initiative to other rural communities.
Local sourcing of red rice to help boost income levels of farmers and promote Good Agricultural Practices (GAP).	Nestlé's red rice cultivation was officially launched in October 2007. This contract farming scheme with farmers in Sarawak will practise zero burning of harvested fields as well as the use of cultural and non-chemical means to ensure rapid leftover stalk degradation into compost, which enriches the soil further with organic matter.	Following the success of the trials, Nestlé is currently working with the local farmers in Sarawak on commercial farming and the cultivation of red rice for use in Nestlé Infant Cereals.

What we set out to achieve	What we have achieved to-date	Going forward
	In 2008, Nestlé Malaysia signed two agreements with the Malaysian Agricultural Research and Development Institute (MARDI) for a formal research and development (R&D) collaboration on agriculture, and a Memorandum of Agreement (MoA) for the management and implementation of the Ministry of Science Technology and Innovation (MOSTI) Red Rice Technofund. The MoA will see RM2 million out of the RM2.5 million allocation channelled to MARDI for primary R&D and Agronomy efforts, while the remaining RM500,000 will be forwarded to Nestlé for commercialisation purposes.	

COMMITMENT TO THE ENVIRONMENT

Nestlé has a Policy on the Environment which defines the Company's worldwide strategy on environmental issues and to state its long-standing commitment to environmentally sound business practices such as preserving natural resources and minimising waste.

What we set out to achieve	What we have achieved to-date	Going forward
Preserve natural resources by identifying opportunities to work with NGOs such as World Wildlife Fund for Nature (WWF).	In partnership with WWF-Malaysia for a 4-year project in Setiu, Terengganu to save the wetlands and create new income opportunities for women of the Setiu Wetlands, this project includes creating awareness on conserving the local natural resources, community research, capacity building programmes, business planning, monitoring and evaluation. In 2008, Nestlé organised a talk with the local villagers to share with them the Company's expertise on entrepreneurship capacity building.	Ultimately, the positive outcome of the project will empower the women of this village to generate sustainable incomes while conserving the natural wetland habitat of the area. The local community is now more aware of their surroundings and its importance and their cottage industry initiative is expected to start in early 2009.
Sustainable Agriculture Initiatives (SAI) was established together with other global food companies to work with farmers to promote best practices.	To-date the initiative has improved quality and addressed safety problems in the food supply chain; help meet the growing demand for quality food arising from population growth, increases in expendable income and dietary changes; help counter adverse effects of agriculture practices on natural resources and the environment which affect agricultural productivity. Under the SAI project, replacing the use of plastic sleeving for Cocoa Pod Borer control, to the use of a bio-degradable alternative, or through use of organic-based spray control has been practised.	

What we set out to achieve	What we have achieved to-date	Going forward
	In addition, the conversion of plastic mulching to the use of bio-degradable mulching and the centralised supply of seedlings to farmers as an "indirect subsidy" to offset rising production costs have been implemented in Tawau and Raub. The Company has also provided support and guidance to farmers in crop management and sustainable practices in its chilli and red rice contract farming initiatives.	
The Nestlé Environmental Management System (NEMS) is based on the continuous improvement management cycle and manages the Company's environmental performance. NEMS is aligned with the requirements of the international standard ISO14001:2004.	This system ensures environmentally-friendly production techniques and ways to recover by-products, as well as processing methods that minimise water and energy consumption and waste generation. It also reviews factory compliance with legal and internal standards, investigates incidents that could affect the environment and take appropriate measures. For 2008, Energy Management saw an increase in energy consumption of 10.22% MJ per tonne product; air emissions saw an increase of about 14.89%; CO_2 emission saw an increase of about 2.07%; and water management saw an increase of 4.11% per tonne product compared to 2007. These increases are attributed to the significant increase in capital investments related to additional production capacity in 2008 where as a result of commissioning and start-up activities, specifically in the Shah Alam and Kuching factories, the consumption of energy and water as well as air emissions increased due to the use of energy and water without generating sellable products. In areas not affected by commissioning activities, Nestlé has seen a strong reduction of both energy and water consumption due to continuous improvements and optimised production runs.	All factories to be accredited with ISO 14001. Continue to achieve and exceed all KPIs as set. Nestlé Malaysia has a programme to reduce water consumption by 5% annually and the overall trend for the past 6 years has shown a steady reduction of more than 3.5% annually.
Packaging – to identify and ensure post-consumer waste reduction.	2008 saw the reduction of about 9.5% in packaging material usage per tonne product compared to 2007 data (180kg per tonne product against 199kg in 2007).	Regularly re-develop our packaging to reduce materials used or adopt new concepts that enable environmentally-friendly disposal options.

What we set out to achieve	What we have achieved to-date	Going forward
Waste management	In an effort to reduce waste through recycling, Nestlé set up a Central Returns Warehouse (CRW) in 2004 at Bukit Raja, Klang to receive and process product returns due to damage and expiry. As part of its "Green Supply Chain" initiative, all recyclable packaging materials (plastics, cardboards, tins, aluminium and glass) are sold to recyclers. Expired products are sold to contractors for conversion into animal feed. Materials which cannot be recycled are properly disposed of at the Sanitary Landfill under strict control. In 2008, CRW disposed to the Landfill 1,300 tonnes lesser than 2007 due to reduction in the volume of market returns and our efforts in increasing recycling.	In 2009, we expect a further improvement in recycling by 15% with the introduction of a special machine which can crush tins of liquid milks, drinks and RTD tetra packs. Other initiatives involving Factory Waste Management will also include increased recycling and reduced load to the Landfill to help the Company minimise waste.

PEOPLE AND THE WORKPLACE – Capacity Building with Employees

Nestlé believes that each employee should have the opportunity to develop his or her potential in a safe and fair workplace where they are listened to, respected and valued. Our corporate values of Trust, Respect, Involvement and Pride are observed and practised consistently at all levels throughout the organisation.

What we set out to achieve	What we have achieved to-date	Going forward
Creating a dynamic workforce.	In 2008, Nestlé recruited a total of 1,417 new employees, hence contributing towards employment creation in Malaysia.	Nestlé will continue to recruit as per the business needs.
The Company encourages continuous improvement through training, and the improvement of professional skills at all levels in the organisation and career opportunities are based on merit.	'Nestlé on the Move' is one prime example, as it helps our employees keep abreast with the most up-to-date and relevant competencies in view of their changing roles in the organisation. Customised internal and external training programmes that focus on leadership competencies, functional competencies and personal effectiveness are continuously conducted.	Introduce a revised leadership programme called Personal Effectiveness and Renewal Leadership (PEARL) which focuses more on personal effectiveness and follow-up on action planning through Executive Coaching. Leverage on Blended learning (Classroom and e-learning) for most Corporate In-House Training programmes.
Mission Directed Work Teams (MDWT) is a key change initiative, moving from a hierarchical to a network organisation, which calls for further empowerment and involvement of our people who have the necessary skills and knowledge.	A total of 189 teams has been formed since June 2005, covering all levels from the front line to the top management of the Production Division. In 2008, we set out to widen the MDWT concept beyond the Production Division and 30 new teams were formed in 2008 including 2 business units, Supply Chain and Human Resource Division.	Nestlé will continue to implement the MDWT concept in business units and other divisions in line with Nestlé Continuous Excellence (NCE). Priority for 2009 will be to roll-out the leadership module to senior and middle management levels.

What we set out to achieve	What we have achieved to-date	Going forward
Executive Diploma in Manufacturing Management (EDMM) is a collaboration with Open University Malaysia (OUM) - an 18-month programme, which is a combination of workplace and classroom learning for Nestlé's First Line Managers (FLMs).	In 2008, the target was to complete the EDMM pilot programme. 48 graduated with EDMM in 2008, enabling them to deliver their role as FLMs. In line with the Company's progression, some were promoted to Production Managers.	The second batch is undergoing the programme and will be completing their training in April 2009 and 32 EDMM graduates are expected in 2009. For all new coming FLMs, e-learning will be used as the delivery mode for the EDMM programme. A task team is working on putting at least four modules on complete e-learning by the end of the year.
Nestlé Sales Personnel	In a collaboration with OUM, a Sales College is in place for our employees to undertake a 6-month programme leading to the Professional Certificate in Sales. A Professional Certificate in English for Sales Communication, which is another tie-up between Nestlé and OUM, is also offered to employees.	This is an on-going programme where we enrolled 3 batches and the fourth batch will commence early 2009. The way forward is to have the Executive Diploma Programme for those who have attended in order to widen their knowledge in Sales and to increase their competency. We will continue to have this certification in various locations especially for the sales personnel who wish to improve their communication skills.
Production Operators	For the production operators, Nestlé collaborated with the Workers Institute of Technology (WIT) and in some cases with Polytechnics, to train them to become Technical Operators by providing them with basic fitting technical skills and knowledge.	This will continue as part of the people development programme.
Nutrition Training	In 2007, Nestlé Malaysia initiated Nutrition Training to ensure that all Nestlé employees are knowledgeable about nutrition and are able to apply this knowledge in everyday action. It is a continuous training for all Nestlé Malaysia employees. In 2008, the programme was extended to all branches and factories. As of today, more than 1,000 people consisting of Nestlé employees and its communication partners have been trained.	

What we set out to achieve	What we have achieved to-date	Going forward
Scholarships to children of employees and retirees	In 2008, Nestlé provided a total of 10 Nestlé Scholarship Awards to the children of employees and retirees to pursue their higher education. Since its inception in 1978, a total of 182 students have benefitted from the award.	Continue the 10 Scholarship Awards to eligible and deserving recipients with revision to the quantum of award to individual scholars.
Inculcate a caring culture among employees through a volunteer programme	Nestlé Reaching Out to Communities and Kids (ROCKS) employee volunteer programme internalises Nestlé's CR commitments. The Company's 5,000 employees are able to take 16 hours "time off" from work a year to assist at any of the 30 homes Nestlé helps out annually. This year, ROCKS initiated 'Eggxtra Nourishment' – an egg collection drive aimed a providing nutrition for the less fortunate. The response was overwhelming.	To increase membership amongst employees and add more value to ROCKS by initiating new activities that are meaningful and sustainable.
Develop a healthy workforce	In line with the Company's Wellness Programme, effective 2008, Nestlé House has been declared a 'No Smoking Building'. Under the Wellness in Action programme, an internal initiative for employees, the Company aims to create a healthier workforce which understands and appreciates Nutrition, Health and Wellness. Under this initiative, every employee has to undergo basic nutrition training and is encouraged to participate in the 100 Days Wellness Challenge to improve their overall health and well-being. In support of this campaign, employees are encouraged to use the stairs instead of lifts. Promotions were also done via poster displays along the corridors and pantries.	The 'No Smoking' Policy will be similarly enforced at the new headquarters location. The fire exit staircase at the new location will be converted into a walkway to encourage staff to walk instead of using lifts.
Safety, Health and Environment (SHE) Initiatives	Initiatives undertaken under SHE throughout 2008 included: - MDWT & Behavioural Based Safety (BBS) refreshers. - Emergency Drill & HAZMAT Training with BOMBA conducted with full scale exercise involving BOMBA at Kuching and Chembong factories. - Nestlé Safety @ Work Award 2008. - SHE Beyond Production conducted where SHE Network meetings were held at factories (created team rooms and rolled-out). Network has benefitted through informal and formal training. - CARE Programme conducted. - Team rooms were created for Avian Influenza/ Human Pandemic Preparedness.	The BBS and MDWT programmes will continue to be implemented while CARE audit is currently being rolled-out at the Sales, Supply Chain and Head office between 2009-2010.

What we set out to achieve	What we have achieved to-date	Going forward
	- Team rooms created for Crisis Management. - Factory SHE Day organised (at Chembong Complex). - Nestlé Integrated Management System (NIMS) certification for factories.	
	In line with a Nestlé global initiative to ensure road safety best practices with our employees, we have established a Safe Driving Committee, to champion road safety initiatives. Initiatives included distribution of safe driving messages on stickers and buntings at all Nestlé key locations. Messages were printed in collaboration with the Jabatan Keselamatan Jalan Raya (JKJR) Malaysia and bi-weekly Safe Driving messages were flashed via e-mail to all Nestlé staff. In terms of safety performance, the lost time accidents per million man hours increased from 2.15 LTIFr in 2007 to 2.38 LTIFr in 2008.	Planned initiatives in 2009 include defensive driving training and a Safe Driving campaign. Efforts are undertaken to rejuvenate BBS in the Production & Supply Chain Operations and show the improvements in terms of Behaviour Observations (participation by employees) submission. This will be done through cross fertilisation of SAFETY Best Practices with the introduction of the "5 Safety Initiatives" which are Safety Training, Safety Meetings, Safety Audits, Log Out Tag Out (LOTO) and BBS.
NIMS certification is an integrated management system. The importance of the establishment of NIMS is to facilitate the management of continuous improvement and compliance. NIMS delivers a common management process, a simplification of standards and practices and also provides a single audit for quality, food safety and SHE.	To-date, ISO14001, OHSAS18001 Certified factories are:- • PJ factory certified & awarded on 4 December 2007 (passed surveillance audit on 16 December 2008) • Chembong MILO/Chocolate factory certified and awarded on 18 November 2008 • Chembong Ice Cream factory certified and awarded on 19 November 2008 These factories were also certified MS1722 Part 1 (Malaysian Standard for Occupational Safety and Health Management System).	In 2009, the Batu Tiga, Shah Alam and Kuching factories are to be assessed and certified ISO14001, OHSAS18001.

What we set out to achieve	What we have achieved to-date	Going forward
The Nestlé Continuous Excellence (NCE)	This initiative was initiated to deliver 3Cs which are delighting Consumers, delivering Competitive advantage and excelling in Compliance. The NCE was rolled out in 2008.	The target is to implement Total Performance Management in all the factories by 2013, and provide LEAN Supply Chain in all business units by 2018.
CONSUMERS & THE MARKETPLACE – Nutrition, Health & Wellness Our commitment to Nourishing Malaysia by improving the health of consumers through our expertise in R&D in food and nutrition.		
What we set out to achieve	**What we have achieved to-date**	**Going forward**
Nestlé is on its journey to become a trusted and responsible Nutrition, Health and Wellness company offering products of superior value with added benefits. As a consumer-driven company, Nestlé manufactures and markets its products to meet the needs of local consumers.	Communicating with consumers as well as gaining their insights is important to Nestlé and this has been done through a dedicated Consumer Services Centre to meet the relevant needs of our consumers whether it be information, feedback or advice. Good service levels were achieved through quick turnaround visitation and analysis times, which helped to return consumer confidence in Nestlé's product quality and our seriousness in having satisfied consumers. Nestlé also reaches out to consumers through a series of healthy cooking demonstrations. In 2008, 20 cooking demonstrations were held where Nestlé reached out to many different groups from Senior Citizens to Women's Associations and Healthcare Practitioners. The aim is to encourage more consumers to cook healthy and nutritious meals for themselves and their families.	Nestlé will continue to communicate closely with consumers.
	In 2008, Nestlé emphasised healthy meal plans which have a healthy fat ratio and are within 650kCal per meal. It also continued to educate consumers on per serving sizes of rice/noodles, vegetables and meat.	
Working with the Government.	Nestlé aims to continue its collaboration with the Ministry of Health and other relevant NGOs to improve the eating habits and nutritional status of all Malaysians. The Company's Nutrition, Health and Wellness strategy complements the Ministry of Health's National Plan of Action for Nutrition Malaysia II (NPANMII).	Nestlé is clear on how we want to complement the Government's 10-Year Nutrition Action Plan through the development of products with less sugar, less salt, less fat etc.

What we set out to achieve	What we have achieved to-date	Going forward
Working with NGOs to help the Government achieve the objectives of the 10-Year Nutrition Action Plan.	In 2001/2002 Nestlé commissioned a study to assess the nutritional status, eating habits, physical activity as well as nutrition knowledge and attitudes of primary school children aged 6 to 12 years. A follow-up study was commissioned in 2007 to cover approximately 13,000 school children throughout the country. The main aim of this study is to produce a report of the nutritional status of primary school children in Malaysia which can be used as a reference for relevant agencies and serve as a means to raise public awareness.	The study is expected to be completed in 2009 and the results to be published in the first half of the year.
Providing relevant value-added products.	Consumers who choose Nestlé products are not only assured of safety and quality but our products are now more nutritionally-balanced with added health benefits. Nestlé's strategy is based on offering products that have proven superiority in consumer preference and nutritional value over the competition and this is based on a proprietary product testing process called 60/40+ which helps to continually improve the taste and nutritional value of our products, contributing to market share gains and improve profitability. We continually review the nutritional content of our products, reducing public-health sensitive components such as salt, sugar and trans-fatty acids, while increasing others considered to be positive for health, such as calcium, iron, whole grains and fibre.	On-going investments in R&D and collaboration with the scientific community to improve our leadership in Food, Nutrition, Health and Wellness.
Nutritional Foundation – raising the bar for consumers' benefit	In 2005, Nestlé Malaysia began assessing the nutritional profile of its total portfolio of products and by knowing the nutritional profile of each Nestlé product we are able to constantly optimise its nutritional composition. From this, we have developed MAGGI TASTYLITE Noodle which contains lower fat content using air-dried technology and a range of less sweet beverages such as MILO. Products attaining the Nestlé Nutritional Foundation status represent an appropriate choice when the consumer chooses to have it in the context of a balanced diet. A food or beverage product will only attain the Nestlé Nutritional Foundation status when all of its nutritional factors meet the criteria for its category.	To create more products that meet the Nestlé Nutritional Foundation status and renovate existing products.

What we set out to achieve	What we have achieved to-date	Going forward
Popularly Positioned Products (PPP) – an affordable range for nutrition and taste	In 2008, Nestlé introduced a range of products called PPP which is the result of deep consumer insight + science = providing high quality products with good nutrition that are within consumers' daily affordability. Products are formulated based on local considerations: food regulations, nutrient deficiencies, public health care concerns.	To introduce a wider range of PPP products.
Communicating with the media	An annual media workshop is organised for media representatives to discuss relevant and topical issues related to Nutrition, Health and Wellness.	To continue interacting with and updating the media on the latest developments with regards to Food, Nutrition, Health and Wellness.
Communicating with consumers	To engage with its consumers, Nestlé's Consumer Services Centre communicates with consumers through calls, e-mails, face-to-face visits and letters. In 2008, the Centre had over 20,000 calls from consumers with a high number of enquiries (78.9%) stemming from the melamine scandal in China. There were also calls on new Nestlé product launches. Nestlé was able to provide assurance to many concerned parents and consumers on the safety of Nestlé products during the melamine crisis. Many calls were also on topics related to the health and nutrition of toddlers, children and senior citizens. The Nestlé Consumer Contact Centre, which is staffed by qualified nutritionists and product technologists, assists consumers in their enquiries.	Good service levels were achieved through quick turnaround visitation and analysis times, which helped to ensure continued consumer confidence in Nestlé's product quality. It also demonstrates our seriousness in having satisfied consumers and we will continue to improve on this.
Communicating with stakeholders	Engaging with stakeholders to gather feedback on Nestlé products and services through various channels – focus groups, visitor surveys at the Nestlé Nourishing Malaysia Showcase, on-going dialogues with NGOs and opinion leaders via stakeholder convenings.	We will continue to improve our communication with our stakeholders through the various channels and act on the feedback received.

What we set out to achieve	What we have achieved to-date	Going forward
Delivering Freshness	'Delivering Freshness' is a Nestlé Best Practice which is integrated into the daily business process and is cross-functionally aligned. The ultimate objective is to establish an effective and efficient management of product shelf life across the entire business to deliver product freshness to expected physical standards. The Key Performance Indicator (KPI) for freshness is the Inventory Freshness Index where we measure the '% remaining shelf life' as a standard, and establish escalating global targets to monitor performance and improvements to deliver the FreshNes strategy. Nestlé Malaysia's FreshNes target is set at 95%, based on the total stock value of '>80% Remaining Shelf Life' for Local Manufactured products and '>70% Remaining Shelf Life' for Imported products. The "fresh" life is the time in weeks from the date of manufacture during which the product maintains its inherent positive characteristics of appearance, flavour and texture as measured by Nestlé Research Scientific and Technical Centre.	We will continuously raise the bar in our freshness pursuit, for the benefit of our consumers.
Managing the Melamine Issue	In September 2008, several companies in China were implicated in a scandal involving milk which had been adulterated with melamine, leading to a global food crisis and shattered consumer trust. From the onset of the crisis, Nestlé products were amongst the few that were declared safe for consumption by the Ministry of Health of Malaysia. In managing this crisis, Nestlé was well aided by competent and professional personnel, embracing a solid Quality system throughout the food chain from farm to fork and having a structured Crisis Committee which enabled the Company to monitor and act on the issue carefully in the trade, with the local media, engaging with authorities as well as the customers and consumers.	Looking ahead, Nestlé will continue to improve the safety and quality standards throughout the supply chain to minimise any risk which can result from a similar food crisis.

External Assurance - Awards

The year under review proved to be one of recognition for Nestlé (Malaysia) Berhad, where several noteworthy awards were won by the Company, primarily in the area of social reporting. The awards won throughout the year will serve as an impetus for the Company to drive further in its quest for excellence and Creating Shared Value in all that it embarks on.

1. ACCA MESRA

Nestlé Wins ACCA MESRA Social Reporting Award for CR Report

Nestlé (Malaysia) Berhad won the Association of Chartered Certified Accountants (ACCA) Malaysia Environmental and Social Reporting Awards (MESRA) 2007 in the Social Reporting category.

Nestlé beat 44 other companies to win the award for the 'Best Social Report' for the Company's first stand-alone Corporate Responsibility (CR) report, and was commended for the following attributes among others:

- successfully demonstrating the integration of sustainable development into the business strategy
- providing a clear articulation of the meaning of sustainable development to the Company
- identifying and explaining key social impacts and issues arising from its business
- demonstrating completeness with table on sustainability targets, achievements and future actions
- stakeholder engagement

The annual awards aims to encourage the uptake of sustainability (or corporate responsibility) reporting among companies in Malaysia; whereby businesses are encouraged to report on the impact of their business operations to the environment and society that they operate in.

2. StarBiz-ICRM Awards

Nestlé Wins Two Awards at Inaugural StarBiz-ICRM Awards

Seven companies were honoured at the inaugural StarBiz-Institute of Corporate Responsibility Malaysia Awards for demonstrating outstanding corporate responsibility (CR) practices. Nestlé bagged two awards, under the categories of 'Community' for our SME mentoring programme and 'Marketplace' for on-going product innovation and renovation to reduce sugar, sodium and fat content in our entire product portfolio. We were also recognised for our efforts in creating a healthier society with the introduction of the Nestlé Nutritional Compass, the first worldwide nutrition labelling initiative by any company.

The winners were judged based on four categories – Marketplace, Workplace, Environment and Community.

3. Most Admired Companies

Nestlé Malaysia is the Country's Most Admired Company

Nestlé (Malaysia) Berhad earned the top spot as the overall most-admired Malaysian company in the Wall Street Journal Asia's Asia 200 survey of readers. Nestlé was also No. 1 in the categories of corporate reputation and quality of its products and services, and No. 3 in the innovation category in the survey.

The poll among 2,447 executives and professionals in 12 Asian-Pacific countries, which was conducted by market-research firm Colmar Brunton, also showed that Nestlé beat the other contenders due to the innovative evolvement of its brands in Malaysia, its leading position as a Halal food manufacturer and unique approach to corporate responsibility. Additionally, the Company was recognised for "excellent time management in response to pricing, costing and promotional activities".

4. KPMG/The Edge Shareholder Value Award 2007

In the recent KPMG/The Edge Shareholder Value Award 2007, Nestlé (Malaysia) Berhad emerged tops in the F&B industry, second in the Consumer Group segment and took seventh placing overall in terms of Shareholder Value Creation. In its seventh year, the Award Programme aims to recognise public-listed companies in Malaysia that have delivered exceptional value for its shareholders.

5. NACRA Awards

Nestlé Clinches Two Gold Awards at NACRA 2008

Nestlé (Malaysia) Berhad emerged tops in 2 categories at the National Annual Corporate Report Awards (NACRA) 2008. The Company won Gold Awards for the Best Designed Annual Report and the Best Corporate Social Responsibility (CSR) categories. Jointly organised by Bursa Malaysia Berhad, Malaysian Institute of Accountants (MIA), Malaysian Institute of Management (MIM) and The Malaysian Institute of Certified Public Accountants (MICPA), the annual award presentation is held to recognise excellence in annual corporate reporting.

6. Sahabat SME

SMEs Recognise Nestlé's Efforts

Nestlé recently won an SME Recognition Award 2008, in the Sahabat SME Category at the Small Medium Industry (SMI) Gala Dinner and Award Presentation Ceremony held at MINES International Exhibition and Convention Centre on 13 December.

Corporate Governance

"It is a bold and fitting agenda for Nestlé Malaysia to inculcate a stakeholder engagement convening in their operations. It is a forum to consult, criticise, commend and construct (the 4Cs) business values and behaviour. A frank, transparent and proactive engagement of one's stakeholders culminates in trust and accountability. A positive awareness of sound business ethics enables priority-setting and acts as a check-and-balance to ensure that a company stay relevant to the needs of the public. I hope Nestlé Malaysia, a founding member of the Business Ethics Institute of Malaysia, will continue to intensify its stakeholder engagement activities such as the Nourishing Malaysia Showcase and the on-going dialogues with various quarters including its business associates, suppliers and the Government to uphold and enhance its traditionally embedded high standards of ethical behaviour and good governance."

Dr. Zainal Abidin bin Abdul Majid
Chairman, Business Ethics Institute of Malaysia

Nestlé is committed to high standards of corporate governance. The Board of Directors and each individual are directly accountable to the shareholders and stakeholders for ensuring that good governance is committed and practiced at every level of the Company's operations including relationships with third parties. Our guiding documents include the "Nestlé Corporate Business Principles" and the "Nestlé Supplier Code". The Company has adopted the "Nestlé Corporate Governance Principles" of its holding company, Nestlé S.A. in Vevey, Switzerland, as its best practice in corporate governance.

The principles of corporate governance covers the following four areas:

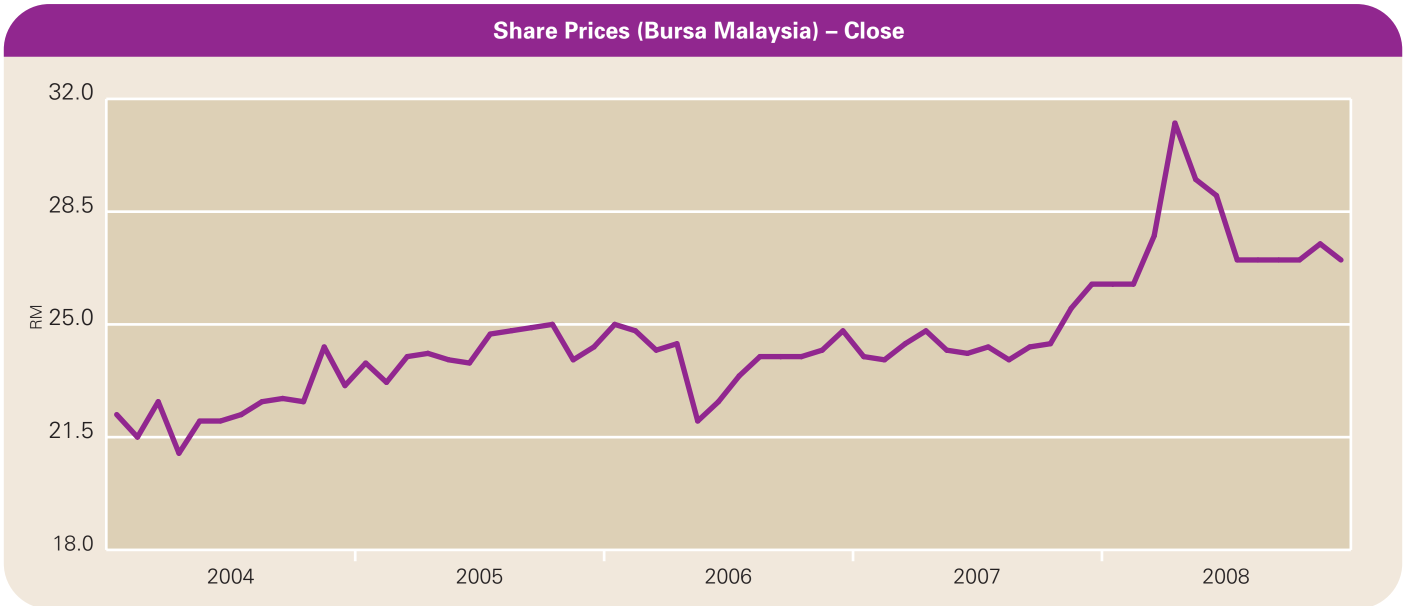
- the rights and responsibilities of shareholders
- the equitable treatment of shareholders
- the duties and responsibilities of directors
- disclosure and transparency

These principles are in line with Part 1 and Part 2 of the Malaysian Code on Corporate Governance and paragraphs 15.26 and 15.27 or the Listing requirements of the Bursa Malaysia Securities Berhad.

Note: The full statement on Corporate Governance appears in the Nestlé Corporate Report 2008.

Performance and Compliance

	Calendar Year				
	2008	**2007**	**2006**	**2005**	**2004**
During the year					
Highest - RM	**32.00**	32.00	26.00	25.75	24.30
Lowest - RM	**25.50**	23.40	21.40	23.00	21.00

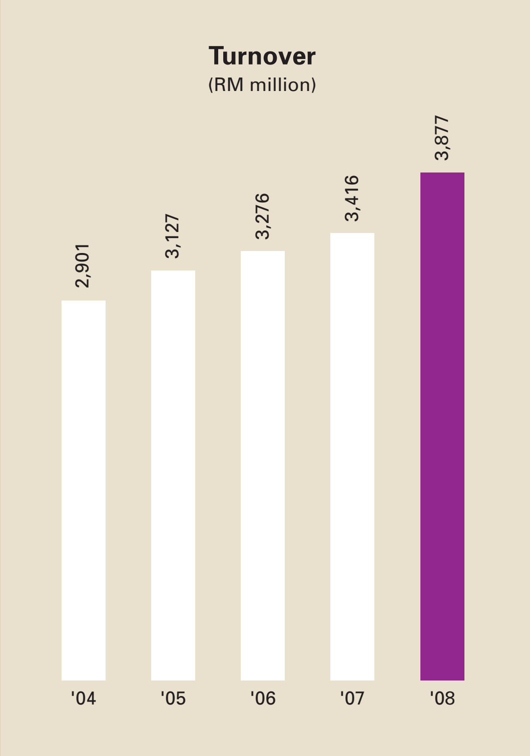


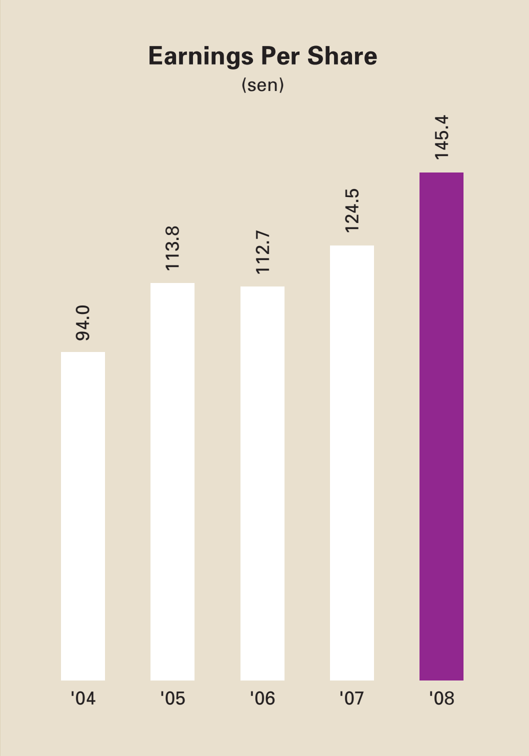
Based on month-end closing price

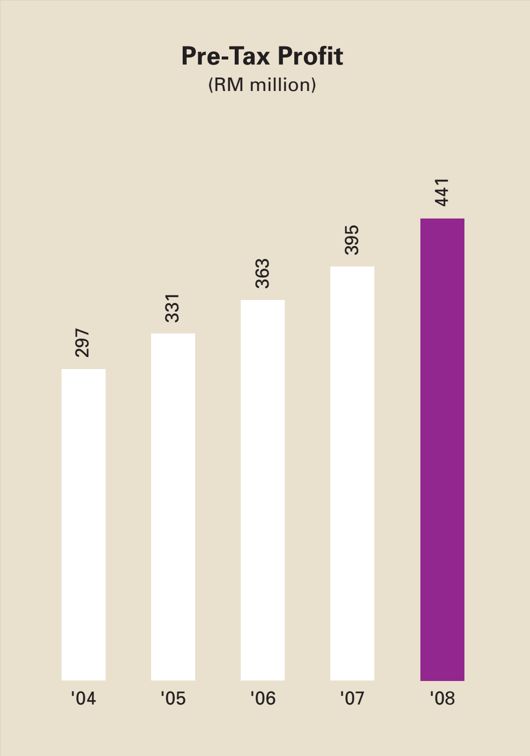
		2008 RM'000	2007 RM'000	2006 RM'000	2005 RM'000	2004 RM'000
Turnover		**3,877,068**	3,416,028	3,275,541	3,127,441	2,901,183
Earnings / Cash Flow						
Profit before tax		**441,353**	395,298	363,285	331,253	297,209
% of turnover		**11.4%**	11.6%	11.1%	10.6%	10.2%
Profit after tax and minority interest		**340,887**	292,042	264,219	266,819	220,408
% of turnover		**8.8%**	8.5%	8.1%	8.5%	7.6%
Dividends paid & proposed (net)		**448,341**	266,889	234,500	199,794	188,069
Depreciation of fixed assets		**74,124**	71,327	69,776	72,482	71,149
Cash flow (net profit						
+ depreciation + amortisation)		**416,302**	371,355	341,412	351,679	305,243
% of turnover		**10.7%**	10.9%	10.4%	11.2%	10.5%
Capital expenditure		**188,055**	102,640	79,065	75,458	62,056
Employment of Assets						
Fixed assets (net)		**633,526**	520,124	491,696	476,177	525,562
Prepaid lease payments (net) [4]		**52,933**	53,968	55,003	56,038	–
Associated companies		**3,242**	3,600	3,417	3,212	2,894
Intangible assets		**61,024**	61,280	66,342	72,724	84,067
Deferred tax assets		**3,980**	2,631	6,709	10,033	2,903
Receivables, deposits & prepayments		**23,814**	22,194	19,414	–	–
Net current assets [4]		**(148,575)**	69,592	133,568	106,957	(84,998)
Total		**629,944**	733,389	776,149	725,141	530,428
Financed by						
Share capital		**234,500**	234,500	234,500	234,500	234,500
Reserves		**281,255**	402,759	324,606	289,552	217,035
Total shareholders' funds		**515,755**	637,259	559,106	524,052	451,535
Deferred Taxation		**56,801**	50,630	45,558	32,683	32,566
Minority Interest		**–**	–	–	–	–
Retirement Benefit Liabilities		**54,698**	40,321	64,277	63,929	46,327
Borrowings		**2,690**	5,179	107,208	104,477	–
Total		**629,944**	733,389	776,149	725,141	530,428
Per Share						
Market price [3]	(RM)	**27.00**	26.25	24.80	24.30	23.10
Earnings [1]	(sen)	**145.37**	124.54	112.67	113.78	94.00
Price earnings ratio		**18.57**	21.08	22.01	21.36	24.58
Dividend (net)	(sen)	**191.19**	113.81	100.00	85.20	80.20
Dividend yield	(%)	**7.1**	4.3	4.0	3.5	3.5
Dividend cover [1]	(no.)	**0.8**	1.1	1.1	1.3	1.2
Shareholders' funds	(RM)	**2.20**	2.72	2.38	2.23	1.93
Net tangible assets [2]	(RM)	**1.94**	2.46	2.10	1.92	1.57
Personnel	(no.)	**5,293**	4,685	4,151	3,818	3,750
Factories	(no.)	**7**	7	7	7	7

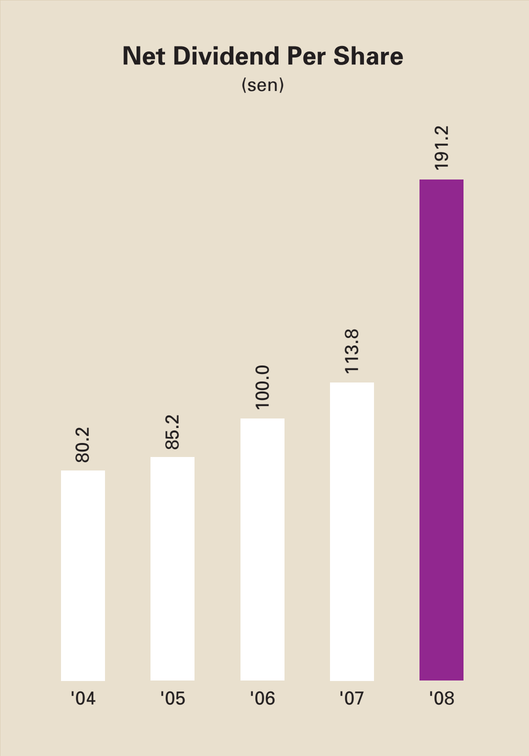
Notes :

1. Earnings per share and dividend cover are based on profit after tax.
2. Net tangible assets consists of issued share capital plus reserves less intangible assets.
3. The market price represents last done price of the shares quoted on the last trading day of December.
4. The comparative figures for 2006 have been reclassified to conform with the presentation requirements of FRS 101.


Turnover
(RM million)
2,901
3,127
3,276
3,416
3,877
'04
'05
'06
'07
'08


Earnings Per Share
(sen)
94.0
113.8
112.7
124.5
145.4
'04
'05
'06
'07
'08


Pre-Tax Profit
(RM million)
297
331
363
395
441
'04
'05
'06
'07
'08


Net Dividend Per Share
(sen)
80.2
85.2
100.0
113.8
191.2
'04
'05
'06
'07
'08

From the Corporate Responsibility Committee

It has been both a challenge and a pleasure preparing this Creating Shared Value report; challenging because after winning the ACCA MESRA Awards for the 'Best Social Report', we have to improve on the previous report to meet not only our own high expectations, but also those of our stakeholders; and it has been a pleasurable exercise because we can chart our progress over the past 12 months and review our strengths and opportunities.

The Corporate Responsibility Committee comprises colleagues from the various divisions and business units, providing input in their areas of expertise. The report is a product of team effort, not only internally but also with the involvement of our communication partners, WestCoast Communications Sdn Bhd and Mutiara RTS Sdn Bhd.

The Committee is aware that the report may not be complete without third party verification and we hope to address this formally in our next report.

In the meantime, we hope that you will find the report insightful, interesting and beneficial. We value your comments and feedback to help us improve our reporting. Please call, write or e-mail us. Our contact details are available on the following page.

CORPORATE RESPONSIBILITY COMMITTEE:

Adviser :

Sullivan O'Carroll
(Managing Director)

Head of Committee :

Tengku Marina Tunku Annuar Badlishah
(Group Corporate Affairs and Wellness Director)

Committee Members :

Ariffin Buranudeen
Elvi Sazali Jaafar
Tengku Ida Tengku Ismail
Immy Ooi
Marinus de Kloe
William Kuek
Yong Lee Keng
Asrina Mohd Shariff
Chia Wee Leng
Tracy Lew
Lashvinder Kaur
Alfyan Adnan
D. Thanaselvam
Mike Teh

Nestlé Contact Details

We want to understand your views better and hear what you think of our CR initiatives. We would like to know what you think we should be doing more of, and what you feel we are not doing right. Also contact us if you want to comment on our products, suggest new ones, obtain recipes or seek nutritional advice from us. We want to hear from you.

Visit our website at	**www.nestle.com.my**
Call us at Free Phone	**1-800-88-3433**
Fax us at	**03-7965 6767**
Write to us at	**Nestlé Consumer Services** **Nestlé House** **4 Lorong Persiaran Barat** **46200 Petaling Jaya** **Selangor**
E-mail us at	**Nourishing.Malaysia@my.nestle.com**

Our commitment to Malaysia remains steadfast, and we will continue to improve the quality of lives of Malaysians through our brands and products as well as our Creating Shared Value activities.

www.nestle.com.my

Nestlé will continue to optimise total return to shareholders, embracing sustainable, capital efficient and long-term profitable growth.

FINANCIAL REPORT 08

Financial Calendar

Results		
Interim	- announced	7 August 2008
Final	- announced	26 February 2009

Dividends		
Special	- record date - paid	24 April 2008 29 May 2008
Interim	- record date - paid	28 August 2008 24 September 2008
Final (proposed)	- record date - payable	7 May 2009 28 May 2009

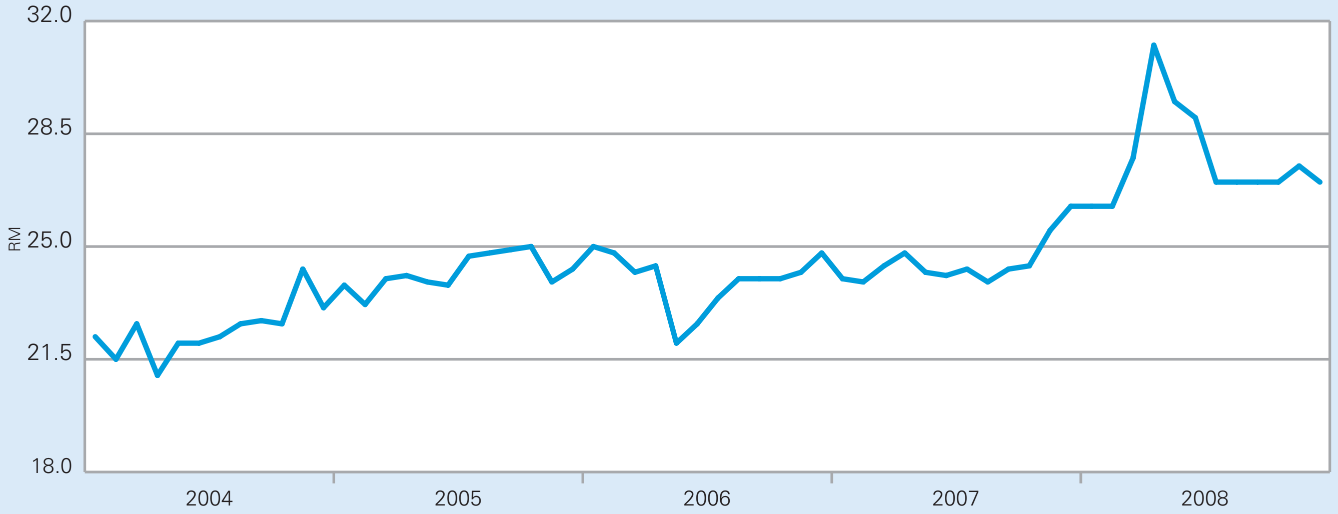
Annual General Meeting		16 April 2009

inside

Share Performance

	Calendar Year				
	2008	**2007**	**2006**	**2005**	**2004**
During the year					
Highest - RM	**32.00**	32.00	26.00	25.75	24.30
Lowest - RM	**25.50**	23.40	21.40	23.00	21.00

Share Prices (Bursa Malaysia) – Close



Based on month-end closing price

Group Financial Highlights

		2008 RM'000	2007 RM'000	+ / (-)
Turnover		**3,877,068**	3,416,028	13.5%
Earnings / Cash Flow				
Profit before tax		**441,353**	395,298	11.7%
% of turnover		**11.4%**	11.6%	
Profit after tax and minority interest		**340,887**	292,042	16.7%
% of turnover		**8.8%**	8.5%	
Dividends paid & proposed (net)		**448,341**	266,889	68.0%
Depreciation of fixed assets		**74,124**	71,327	
Cash flow (net profit + depreciation + amortisation)		**416,302**	371,355	
Capital expenditure		**188,055**	102,640	
Shareholders' funds		**515,755**	637,259	
Personnel	(no.)	**5,293**	4,685	
Factories	(no.)	**7**	7	
Per Share				
Market price [3]	(RM)	**27.00**	26.25	
Earnings per share [1]	(sen)	**145.37**	124.54	
Price earnings ratio		**18.57**	21.08	
Dividend (net)	(sen)	**191.19**	113.81	
Dividend yield	(%)	**7.1**	4.3	
Dividend cover [1]	(no.)	**0.8**	1.1	
Shareholders' funds	(RM)	**2.20**	2.72	
Net tangible assets [2]	(RM)	**1.94**	2.46	

Notes :

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

5 Years' Statistics

for the year ended 31 December 2008

		2008 RM'000	2007 RM'000	2006 RM'000	2005 RM'000	2004 RM'000
Turnover		**3,877,068**	3,416,028	3,275,541	3,127,441	2,901,183
Earnings / Cash Flow						
Profit before tax		**441,353**	395,298	363,285	331,253	297,209
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Profit after tax and minority interest		**340,887**	292,042	264,219	266,819	220,408
% of turnover		**8.8%**	8.5%	8.1%	8.5%	7.6%
Dividends paid & proposed (net)		**448,341**	266,889	234,500	199,794	188,069
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Financed by						
Share capital		**234,500**	234,500	234,500	234,500	234,500
Reserves		**281,255**	402,759	324,606	289,552	217,035
Total shareholders' funds		**515,755**	637,259	559,106	524,052	451,535
Deferred Taxation		**56,801**	50,630	45,558	32,683	32,566
Minority Interest		**–**	–	–	–	–
Retirement Benefit Liabilities		**54,698**	40,321	64,277	63,929	46,327
Borrowings		**2,690**	5,179	107,208	104,477	–
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Notes :

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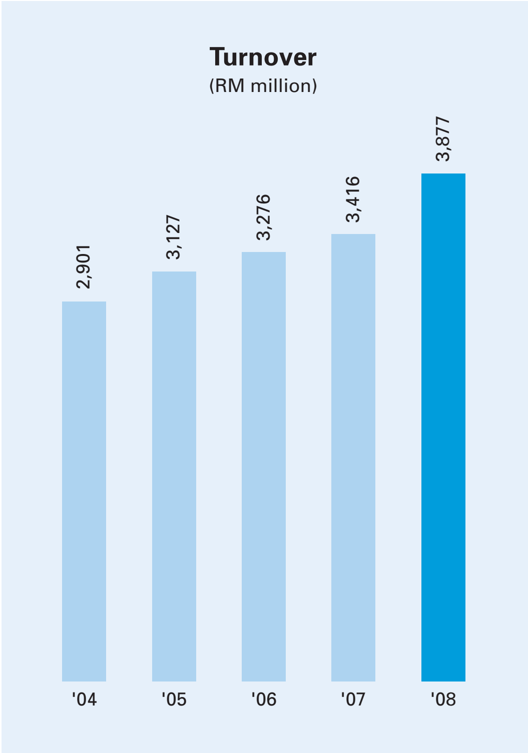
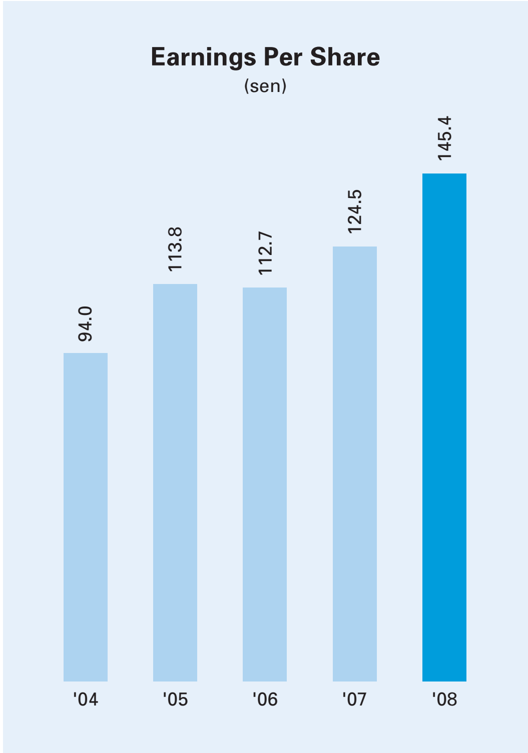
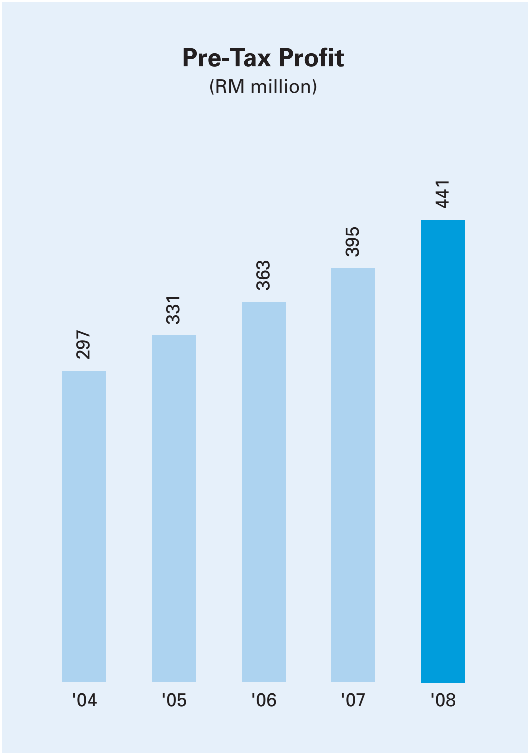
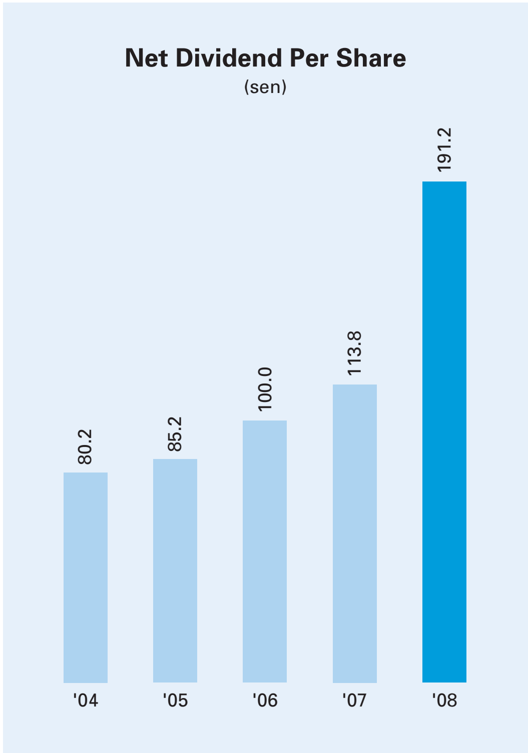
Financial Charts









Directors' Report

for the year ended 31 December 2008

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2008.

Principal Activities

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

Results

	Group RM'000	Company RM'000
Profit for the year attributable to equity holders of the Company	340,887	436,319

Reserves and Provisions

There were no material transfers to or from reserves and provisions during the 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 106.50 sen per ordinary share less tax at 26% totalling RM184,809,000 (78.81 sen net per ordinary share) in respect of the year ended 31 December 2007 on 29 May 2008;

(ii) a special dividend of 61.19 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM143,490,550 in respect of the year ended 31 December 2008 on 29 May 2008; and

(iii) an interim dividend of 50.00 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM117,250,000 in respect of the year ended 31 December 2008 on 24 September 2008.

The final dividend recommended by the Directors in respect of the year ended 31 December 2008 is 80.00 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM187,600,000.

Directors of the Company

Directors who served since the date of the last report are:

Director	Alternate
Gen. (R) Tan Sri Dato' Mohd. Ghazali Seth (Chairman)	
YM Tengku Tan Sri Dr. Mahaleel bin Tengku Ariff	
Tan Sri Dato' Seri Syed Anwar Jamalullail	
Tan Sri Dato' Ernst Zulliger	
Mr Sullivan O'Carroll	Mr Marc Seiler (appointed on 1.12.2008)
	Mr Stéphane Alby (ceased on 30.11.2008)
Dato' Frits van Dijk	Mr Magdi Batato
Mohd. Rafik bin Shah Mohamad	
Mr Marc Seiler (appointed on 1.12.2008)	Mr Sullivan O'Carroll (appointed on 1.12.2008)
Mr Stéphane Alby (resigned on 30.11.2008)	Mr Sullivan O'Carroll (ceased on 30.11.2008)

Directors' Interests

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 year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM1 each			
	At 1.1.2008	Bought	Sold	At 31.12.2008
Shareholdings in which Directors have direct interest				
Interest in the Company				
Gen. (R) Tan Sri Dato' Mohd. Ghazali Seth	10,000	–	–	**10,000**
Dato' Frits van Dijk	8,000	–	–	**8,000**
Mohd. Rafik bin Shah Mohamad	27,000	–	–	**27,000**

	Number of ordinary shares			
	At 1.1.2008	Share split*/ Bought	Sold	At 31.12.2008
Interest in Nestlé S.A., the holding company				
Mr Sullivan O'Carroll	90	810*	–	**900**
Mr Magdi Batato	–	6,850	–	**6,850**

* *1-for-10 shares split effective 30 June 2008.*

None of the other Directors holding office at 31 December 2008 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 emoluments 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 Restricted Stock Unit Plan at the holding company.

Issue of Shares and Debentures

There were no changes in the authorised, 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 year.

Other Statutory Information

Before the balance sheets and income 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) all current assets have been stated at the lower of cost and net realisable value.

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 Group and in the Company financial statements 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.

Other Statutory Information (Continued)

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

(i) any charge on the assets of the Group or of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

(ii) any contingent liability in respect of the Group or of the Company that has arisen since the end of the financial year.

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

In the opinion of the Directors, the results of the operations of the Group and of the Company for the financial year ended 31 December 2008 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, Messrs KPMG, have indicated their willingness to accept re-appointment.

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

Sullivan O'Carroll **Marc Seiler**

Petaling Jaya,
26 February 2009

Balance Sheets

at 31 December 2008

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Assets					
Property, plant and equipment	3	**633,526**	520,124	**–**	–
Intangible assets	4	**61,024**	61,280	**–**	–
Prepaid lease payments	5	**52,933**	53,968	**–**	–
Investment in subsidiaries	6	**–**	–	**232,992**	232,992
Investment in an associate	7	**3,242**	3,600	**3,000**	3,000
Deferred tax assets	8	**3,980**	2,631	**–**	–
Receivables, deposits and prepayments	9	**23,814**	22,194	**–**	–
Total non-current assets		**778,519**	663,797	**235,992**	235,992
Receivables, deposits and prepayments	9	**391,483**	461,081	**873,787**	623,603
Inventories	10	**459,489**	446,602	**–**	–
Current tax assets		**5,220**	–	**58**	–
Cash and cash equivalents	11	**25,690**	31,670	**1,042**	17,368
Total current assets		**881,882**	939,353	**874,887**	640,971
Total assets		**1,660,401**	1,603,150	**1,110,879**	876,963
Equity					
Share capital		**234,500**	234,500	**234,500**	234,500
Reserves		**30,186**	34,067	**33,000**	33,000
Retained earnings		**251,069**	368,692	**187,613**	196,844
Total equity attributable to equity holders of the Company	12	**515,755**	637,259	**455,113**	464,344
Liabilities					
Loans and borrowings	13	**2,690**	5,179	**–**	–
Employee benefits	14	**54,698**	40,321	**–**	–
Deferred tax liabilities	8	**56,801**	50,630	**–**	–
Total non-current liabilities		**114,189**	96,130	**–**	–
Payables and accruals	15	**904,368**	550,187	**655,766**	412,463
Loans and borrowings	13	**105,953**	302,703	**–**	–
Taxation		**20,136**	16,871	**–**	156
Total current liabilities		**1,030,457**	869,761	**655,766**	412,619
Total liabilities		**1,144,646**	965,891	**655,766**	412,619
Total equity and liabilities		**1,660,401**	1,603,150	**1,110,879**	876,963

The notes on pages 15 to 54 are an integral part of these financial statements.

Income Statements

for the year ended 31 December 2008

	Note	Group		Company	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Revenue		**3,877,068**	3,416,028	**435,259**	360,143
Cost of goods sold		**(2,673,318)**	(2,290,719)	**–**	–
Gross profit		**1,203,750**	1,125,309	**435,259**	360,143
Other income		**5,424**	939	**–**	–
Distribution and selling expenses		**(657,448)**	(603,087)	**–**	–
Administrative expenses		**(84,266)**	(91,172)	**(1,326)**	(1,207)
Other expenses		**(2,930)**	(22,606)	**–**	–
Results from operating activities		**464,530**	409,383	**433,933**	358,936
Interest income		**139**	443	**28,219**	21,667
Finance costs		**(23,091)**	(14,842)	**(25,221)**	(19,918)
Operating profit	16	**441,578**	394,984	**436,931**	360,685
Share of (loss)/profit after tax of an equity accounted associate		**(225)**	314	**–**	–
Profit before tax		**441,353**	395,298	**436,931**	360,685
Tax expense	18	**(100,466)**	(103,256)	**(612)**	(97,550)
Profit for the year attributable to equity holders of the Company		**340,887**	292,042	**436,319**	263,135
Basic earnings per ordinary share (sen)	19	**145**	125		

The notes on pages 15 to 54 are an integral part of these financial statements.

Statements of Recognised Income and Expense

for the year ended 31 December 2008

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Net (loss)/gain on cash flow hedge		**(5,214)**	4,570	**–**	–
Defined benefit plan actuarial (losses)/gains		**(17,279)**	25,213	**–**	–
Tax on income and expense recognised directly in equity	18	**5,652**	(9,167)	**–**	–
Income and expense recognised directly in equity		**(16,841)**	20,616	**–**	–
Profit for the year		**340,887**	292,042	**436,319**	263,135
Total recognised income and expense for the year attributable to equity holders of the Company		**324,046**	312,658	**436,319**	263,135

The notes on pages 15 to 54 are an integral part of these financial statements.

Cash Flow Statements

for the year ended 31 December 2008

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Cash flows from operating activities					
Profit before tax		**441,353**	395,298	**436,931**	360,685
Adjustments for:					
Amortisation of intangible assets	4	**256**	5,062	**–**	–
Amortisation of prepaid lease payments	5	**1,035**	1,035	**–**	–
Depreciation of property, plant and equipment	3	**74,124**	71,327	**–**	–
Finance costs		**23,091**	14,842	**25,221**	19,918
Gain on disposal of property, plant and equipment	16	**(1,185)**	(927)	**–**	–
Impairment loss on property, plant and equipment	3	**–**	1,889	**–**	–
Interest income		**(139)**	(443)	**(28,219)**	(21,667)
Property, plant and equipment written off	16	**208**	1,222	**–**	–
Share based payments	16	**5,285**	5,184	**–**	–
Share of loss/(profit) of an equity accounted associate		**225**	(314)	**–**	–
Operating profit before changes in working capital		**544,253**	494,175	**433,933**	358,936
Changes in working capital:					
Inventories		**(12,887)**	(115,928)	**–**	–
Payables and accruals		**72,282**	69,820	**243,303**	(1,054)
Receivables, deposits and prepayments		**70,264**	(34,230)	**(250,184)**	(14,342)
Cash generated from operations		**673,912**	413,837	**427,052**	343,540
Finance costs paid		**(23,091)**	(14,842)	**(25,221)**	(19,918)
Net employee benefits (contributed)/recognised		**(2,902)**	1,257	**–**	–
Tax paid		**(92,511)**	(109,595)	**(826)**	(97,488)
Tax refunded		**564**	–	**–**	–
Net cash from operating activities		**555,972**	290,657	**401,005**	226,134
Cash flows from investing activities					
Acquisition of property, plant and equipment	(ii)	**(188,055)**	(102,640)	**–**	–
Dividend received		**133**	131	**–**	–
Interest received		**139**	443	**28,219**	21,667
Proceeds from disposal of property, plant and equipment		**2,087**	1,345	**–**	–
Net cash (used in)/from investing activities		**(185,696)**	(100,721)	**28,219**	21,667

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Cash flows from financing activities					
Dividends paid to equity holders of the Company	20	**(445,550)**	(234,505)	**(445,550)**	(234,505)
Proceeds from borrowings		**103,000**	248,500	**–**	–
Proceeds from/(Repayment of) short term loan from a related company		**269,114**	(112,861)	**–**	–
Repayment of borrowings		**(300,100)**	(112,900)	**–**	–
Payment of finance lease liabilities		**(2,720)**	(2,328)	**–**	–
Net cash used in financing activities		**(376,256)**	(214,094)	**(445,550)**	(234,505)
Net (decrease)/increase in cash and cash equivalents		**(5,980)**	(24,158)	**(16,326)**	13,296
Cash and cash equivalents at 1 January	(i)	**31,670**	55,828	**17,368**	4,072
Cash and cash equivalents at 31 December	(i)	**25,690**	31,670	**1,042**	17,368

(i) Cash and cash equivalents

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Deposits placed with licensed banks	11	**1,040**	17,240	**1,040**	17,240
Cash and bank balances	11	**24,650**	14,430	**2**	128
		25,690	31,670	**1,042**	17,368

(ii) Acquisition of property, plant and equipment

During the year, the Group acquired property, plant and equipment with an aggregate cost of RM188,636,000 (2007– RM103,284,000), of which RM581,000 (2007 – RM644,000) were acquired by means of finance leases.

The notes on pages 15 to 54 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 Board of Bursa Malaysia Securities Berhad. The address of its registered office, which is also its principal place of business is as follows:

Nestlé House
4, Lorong Persiaran Barat
46200 Petaling Jaya
Selangor Darul Ehsan

The consolidated financial statements of the Company as at and for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in an associate.

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

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

The financial statements were approved by the Board of Directors on 26 February 2009.

1. Basis of Preparation

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards (FRS), accounting principles generally accepted and the Companies Act, 1965 in Malaysia. These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad.

The Group and the Company have not applied the following accounting standards (including its consequential amendments) and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective:

FRSs / Interpretations	**Effective date**
FRS 4, *Insurance Contracts*	1 January 2010
FRS 7, *Financial Instruments: Disclosures*	1 January 2010
FRS 8, *Operating Segments*	1 July 2009
IC Interpretation 9, *Reassessment of Embedded Derivatives*	1 January 2010
IC Interpretation 10, *Interim Financial Reporting and Impairment*	1 January 2010

1. Basis of Preparation (Continued)

(a) Statement of compliance (continued)

The Group and the Company has early adopted International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement* since 2001, of which MASB has issued a similar standard under FRS 139 which will be effective from period beginning 1 January 2010.

The impact of applying FRS 4 and FRS 7 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors* is not disclosed by virtue of the exemptions given in the respective FRSs. Other than the implications as discussed below, the initial application of the above standards (and its consequential amendments) and interpretations is not expected to have any material impact on the financial statements of the Group and the Company.

FRS 8, Operating Segments

FRS 8 will become effective for financial statements for the year ending 31 December 2010. FRS 8, which replaces FRS 114, *Segment Reporting*, requires identification and reporting of operating segments based on internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and to assess its performance. Currently, the Group does not present segment information in respect of its business and geographical segments (see Note 21). Under FRS 8, the Group will present segment information based on internal management report.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for derivative financial instruments which are stated at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of financial statements 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 estimate is revised and in any future periods affected.

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

- Note 4 – measurement of the recoverable amounts of cash-generating units
- Note 25 – contingencies

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 unincorporated entities, controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Subsidiaries are consolidated using the purchase method of accounting.

Under the purchase method of accounting, the financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses, unless the investment is held for sale.

(ii) Associates

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

Associates are accounted for in the consolidated financial statements using the equity method unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated financial statements include the Group's share of the profit or loss of the equity accounted 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 equity accounted associate, the carrying amount of that interest (including any long-term investments) is reduced to nil 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 investee.

Investments in associates are stated in the Company's balance sheet at cost less any impairment losses, unless the investment is held for sale.

2. Significant Accounting Policies (Continued)

(a) Basis of consolidation (continued)

(iii) Changes in Group composition

Where a subsidiary issues new equity shares to minority interests for cash consideration and the issue price has been established at fair value, the reduction in the Group's interests in the subsidiary is accounted for as a disposal of equity interest with the corresponding gain or loss recognised in the income statements.

When a group purchases a subsidiary's equity shares from minority interests for cash consideration and the purchase price has been established at fair value, the accretion of the Group's interests in the subsidiary is accounted for as a purchase of equity interest for which the acquisition method of accounting is applied.

The Group treats all other changes in group composition as equity transactions between the Group and its minority equity holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

(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 investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated at exchange rates at the dates of the transactions except for those that are measured at fair value, which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statements.

(c) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and commodity contract risk exposures.

Derivative financial instruments such as foreign exchange contracts and commodity futures are used as hedges to manage operational exposures to foreign exchange and commodity price risks. They are entered into with high credit quality financial institutions and brokers, consistent with specific approval, limit and monitoring procedures. In accordance with its treasury and commodity purchasing policies, the Group does not hold derivative instruments for trading purposes.

The fair value of forward exchange contracts and commodity futures are calculated by reference to current forward exchange rates and commodity futures prices respectively, for contracts with similar maturity profiles.

2. Significant Accounting Policies (Continued)

(c) Derivative financial instruments (continued)

Hedging – Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, or the foreign currency risk of committed future transaction, the effective part of the changes in fair value of the hedging instruments is recognised directly in equity, while any ineffective part is recognised immediately in the income statements. When the hedged item results in the recognition of a non-financial asset or liability, the cumulative gain or loss is removed from equity and included in the initial measurement of the asset or liability. Otherwise the cumulative gain or loss is removed from equity and recognised in the income statements at the same time as the hedged transaction.

(d) Property, plant and equipment

(i) Recognition and measurement

Capital work-in-progress are 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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items.

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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" or "other expenses" respectively in the income statements.

(ii) Subsequent costs

The cost of replacing part 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 part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced parts is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statements as incurred.

2. Significant Accounting Policies (Continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is recognised in the income statements on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. 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:

• 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 reassessed at the balance sheet date.

(e) Leased assets

(i) Finance lease

Leases in terms of which the Group or the Company assume 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.

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.

(ii) Operating lease

Leases, where the Group does not assume substantially all the risks and rewards of the ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the Group's balance sheet.

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted for as prepaid lease payments.

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

2. Significant Accounting Policies (Continued)

(f) Intangible assets

(i) Goodwill

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

For acquisitions prior to 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

For business acquisitions beginning 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in income statement.

(ii) Development costs

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved processes is capitalised if the process is technically and commercially feasible and the Group has sufficient resources to complete the development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statements as an expense as incurred. Capitalised development expenditure is stated at cost less any accumulated amortisation and any accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iv) Amortisation

Goodwill and intangible assets with indefinite useful lives 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 of intangible assets is charged to the income statements on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful life is as follows:

- capitalised development costs 5 years

2. Significant Accounting Policies (Continued)

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and 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) Receivables

Receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial.

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statements, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(j) Impairment of assets

(i) Impairment of financial assets

For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through income statements. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2. Significant Accounting Policies (Continued)

(j) Impairment of assets (continued)

(ii) Impairment of other assets

The carrying amounts of assets except for financial assets, inventories, deferred tax assets and assets arising from employee benefits are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated usually at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. 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 groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statements. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of 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 each reporting date 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. 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 the income statements in the year in which the reversals are recognised.

(k) Loans and borrowings

Loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in income statements over the period of the loans and borrowings, together with any interest and fees payable, using the effective interest method.

2. Significant Accounting Policies (Continued)

(l) 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 provision 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.

The Group's contributions to statutory pension funds are charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the income statements on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statements.

The Group recognises all actuarial gains and losses arising from defined benefit plans directly in equity immediately.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iv) Share-based payment transactions

Restricted Stock Unit Plan ("RSUP")

Certain employees of the Group are entitled to RSUP that gives the right to Nestlé S.A. share. The grant date fair value of the RSUP granted to these employees is recharged to the Group and is recognised as an employee expense in the income statements.

2. Significant Accounting Policies (Continued)

(m) 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.

Restructuring

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

(n) Contingent liabilities

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

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(o) Payables

Payables are initially recognised at fair value. Payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

(p) Revenue recognition

(i) Goods sold

Revenue from the sale of goods 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 the significant risks and rewards of ownership have been transferred to the buyer, 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.

(ii) Dividend income

Dividend income is recognised when the right to receive payment is established.

2. Significant Accounting Policies (Continued)

(q) Interest income and borrowing costs

Interest income is recognised as it accrues, using the effective interest method.

All borrowing costs are recognised in the income statements using the effective interest method, in the period in which they are incurred.

(r) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statements except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. 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 (tax 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 balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date 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 are treated as tax base of assets and are recognised as a reduction of tax expense as and when they are utilised.

(s) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3. Property, Plant and Equipment

Group	Buildings RM'000	Plant, machinery, tools, furniture and equipment RM'000	Motor vehicles RM'000	Information systems RM'000	Capital work-in-progress RM'000	Total RM'000
Cost						
At 1 January 2007	240,083	1,014,021	18,137	60,577	17,360	1,350,178
Additions	13,058	74,747	3,526	5,429	6,524	103,284
Disposals	(96)	(2,036)	(1,879)	(3,462)	–	(7,473)
Written off	(48)	(4,625)	–	(2,885)	–	(7,558)
Transfer in/(out)	2,591	14,740	–	29	(17,360)	–
At 31 December 2007/1 January 2008	255,588	1,096,847	19,784	59,688	6,524	1,438,431
Additions	26,349	131,551	2,445	6,649	21,642	188,636
Disposals	–	(3,435)	(4,793)	(35)	–	(8,263)
Written off	(83)	(7,408)	(76)	(3,398)	–	(10,965)
Transfer in/(out)	1,948	4,264	–	312	(6,524)	–
At 31 December 2008	**283,802**	**1,221,819**	**17,360**	**63,216**	**21,642**	**1,607,839**
Depreciation and impairment loss						
At 1 January 2007:						
Accumulated depreciation	75,006	707,587	10,786	44,862	–	838,241
Accumulated impairment loss	5,860	13,897	465	19	–	20,241
	80,866	721,484	11,251	44,881	–	858,482
Depreciation for the year	4,373	58,801	2,041	6,112	–	71,327
Impairment loss	424	1,340	–	125	–	1,889
Disposals	(4)	(1,828)	(1,764)	(3,459)	–	(7,055)
Written off	(3)	(3,530)	–	(2,803)	–	(6,336)
At 31 December 2007:						
Accumulated depreciation	79,372	761,030	11,063	44,712	–	896,177
Accumulated impairment loss	6,284	15,237	465	144	–	22,130
	85,656	776,267	11,528	44,856	–	918,307

3. Property, Plant and Equipment (Continued)

Group	Buildings RM'000	Plant, machinery, tools, furniture and equipment RM'000	Motor vehicles RM'000	Information systems RM'000	Capital work-in-progress RM'000	Total RM'000
Depreciation and impairment loss (continued)						
At 1 January 2008:						
Accumulated depreciation	79,372	761,030	11,063	44,712	–	896,177
Accumulated impairment loss	6,284	15,237	465	144	–	22,130
	85,656	776,267	11,528	44,856	–	918,307
Depreciation for the year	5,391	60,259	2,240	6,234	–	74,124
Disposals	–	(2,611)	(4,715)	(35)	–	(7,361)
Written off	(9)	(7,298)	(76)	(3,374)	–	(10,757)
At 31 December 2008:						
Accumulated depreciation	**84,754**	**811,380**	**8,512**	**47,537**	**–**	**952,183**
Accumulated impairment loss	**6,284**	**15,237**	**465**	**144**	**–**	**22,130**
	91,038	**826,617**	**8,977**	**47,681**	**–**	**974,313**
Carrying amounts						
At 1 January 2007	159,217	292,537	6,886	15,696	17,360	491,696
At 31 December 2007/1 January 2008	169,932	320,580	8,256	14,832	6,524	520,124
At 31 December 2008	**192,764**	**395,202**	**8,383**	**15,535**	**21,642**	**633,526**

Impairment loss

In the previous year, the discontinuation of a food service project caused the Group to assess the recoverable amount of the plant and machinery dedicated to that project and write down the carrying amount of these assets by RM1,889,000 based on nil recoverable amount.

Impairment loss amounting to RM1,889,000 had been recognised in other expenses of the income statements.

Leased plant and machinery

At 31 December 2008, the net carrying amount of leased plant and machinery of the Group was RM5,059,000 (2007 – RM7,184,000).

The Group leases production equipment under a number of finance lease agreements. Some finance leases provide the Group with the option to purchase the equipment at a beneficial price and others transfer ownership of the assets to the Group at the end of the lease term.

4. Intangible Assets

Group	Note	Goodwill RM'000	Development costs RM'000	Total RM'000
Cost				
At 1 January 2007/31 December 2007/31 December 2008		**61,024**	**32,038**	**93,062**
Amortisation				
At 1 January 2007		–	26,720	26,720
Amortisation for the year	16	–	5,062	5,062
At 31 December 2007/1 January 2008		–	31,782	31,782
Amortisation for the year	16	–	256	256
At 31 December 2008		**–**	**32,038**	**32,038**
Carrying amounts				
At 1 January 2007		61,024	5,318	66,342
At 31 December 2007/1 January 2008		61,024	256	61,280
At 31 December 2008		**61,024**	**–**	**61,024**

4.1 Material intangible assets

Development costs principally comprise internally generated expenditure on development costs on project GLOBE where it is reasonably anticipated that the costs will be recovered through future commercial activity.

4.2 Amortisation

The amortisation has been recognised in administrative expenses of the income statements.

4.3 Impairment testing for cash-generating units containing goodwill

The recoverable amount of the goodwill was based on its value in use. The recoverable amount determined was higher than the carrying amount of these intangible assets, and hence, there was no impairment loss on goodwill recognised during the year.

Value in use was determined by discounting the future cash flows generated from the continue 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 the 8-year business plan.
- The subsidiary will continue its operations indefinitely.
- 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. Prepaid Lease Payments

Group	Note	Leasehold land Unexpired period less than 50 years RM'000	Leasehold land Unexpired period more than 50 years RM'000	Total RM'000
Cost				
At 1 January 2007		7,282	51,035	58,317
Reclassification		9,853	(9,853)	–
At 31 December 2007 /1 January 2008/31 December 2008		**17,135**	**41,182**	**58,317**
Amortisation				
At 1 January 2007		847	2,467	3,314
Amortisation for the year	16	324	711	1,035
Reclassification		511	(511)	–
At 31 December 2007/1 January 2008		1,682	2,667	4,349
Amortisation for the year	16	324	711	1,035
At 31 December 2008		**2,006**	**3,378**	**5,384**
Carrying amounts				
At 1 January 2007		6,435	48,568	55,003
At 31 December 2007/1 January 2008		15,453	38,515	53,968
At 31 December 2008		**15,129**	**37,804**	**52,933**

6. Investment in Subsidiaries

	Company 2008 RM'000	Company 2007 RM'000
Unquoted shares – at cost	**232,992**	232,992

6. Investment in Subsidiaries (Continued)

Details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 2008 %	Effective ownership interest 2007 %
Nestlé Products Sdn. Bhd.	Malaysia	Marketing and the sale, both locally and for export, 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 exporting 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 exporting of chocolate confectionery products.	**100**	100
Nestlé Foods (Malaysia) Sdn. Bhd.	Malaysia	Inactive	**100**	100
Nestlé Cold Storage (Sabah) Sdn. Bhd.	Malaysia	Inactive	**100***	100*
SNF Sdn. Bhd.	Malaysia	Inactive	**100**	100

* *Interest held through Nestlé Manufacturing (Malaysia) Sdn. Bhd.*

7. Investment in an Associate

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
At cost:				
Unquoted shares	**3,000**	3,000	**3,000**	3,000
Share of post-acquisition reserves	**242**	600	**–**	–
	3,242	3,600	**3,000**	3,000

Summary financial information on associate:

	Country of incorporation	Effective ownership interest %	Revenue (100%) RM'000	(Loss)/ Profit (100%) RM'000	Total assets (100%) RM'000	Total liabilities (100%) RM'000
2008						
Nihon Canpack (Malaysia) Sdn. Bhd.	Malaysia	**20**	**97,864**	**(1,125)**	**77,391**	**61,179**
2007						
Nihon Canpack (Malaysia) Sdn. Bhd.	Malaysia	20	76,282	1,571	47,131	29,129

8. Deferred Tax Assets and Liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Property, plant and equipment	**–**	–	**72,479**	62,923	**72,479**	62,923
Employee benefit plans	**(13,674)**	(10,483)	**–**	–	**(13,674)**	(10,483)
Provisions	**(5,046)**	(4,836)	**–**	–	**(5,046)**	(4,836)
Hedging reserve	**(938)**	–	**–**	395	**(938)**	395
Tax (assets)/liabilities	**(19,658)**	(15,319)	**72,479**	63,318	**52,821**	47,999
Set off of tax	**15,678**	12,688	**(15,678)**	(12,688)	**–**	–
Net tax (assets)/liabilities	**(3,980)**	(2,631)	**56,801**	50,630	**52,821**	47,999

8. Deferred Tax Assets and Liabilities (Continued)

Movement in temporary differences during the year

Group	At 1.1.2007 RM'000	Recognised in income statement (note 18) RM'000	Recognised in equity (note 18) RM'000	At 31.12.2007 RM'000	Recognised in income statement (note 18) RM'000	Recognised in equity (note 18) RM'000	At 31.12.2008 RM'000
Property, plant and equipment	64,823	(1,900)	–	62,923	9,556	–	**72,479**
Employee benefit plans	(17,998)	(386)	7,901	(10,483)	1,128	(4,319)	**(13,674)**
Provisions	(6,315)	1,479	–	(4,836)	(210)	–	**(5,046)**
Hedging reserve	(871)	–	1,266	395	–	(1,333)	**(938)**
Tax loss carry-forwards	(790)	790	–	–	–	–	**–**
	38,849	(17)	9,167	47,999	10,474	(5,652)	**52,821**

9. Receivables, Deposits and Prepayments

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Non-current					
Loans to employees	9.2	**23,814**	22,194	**–**	–
Current					
Trade					
Trade receivables		**187,450**	298,891	**–**	–
Less: Impairment of trade receivables		**(9,018)**	(30,176)	**–**	–
		178,432	268,715	**–**	–
Amounts due from related companies	9.3	**143,009**	140,515	**–**	–
Amount due from an associate	9.3	**14,593**	3,298	**–**	–
Commodity futures	9.4	**4,338**	1,819	**–**	–
		340,372	414,347	**–**	–
Non-trade					
Amounts due from subsidiaries	9.5	**–**	–	**873,532**	623,506
Amounts due from related companies	9.3	**4,082**	2,478	**–**	–
Other receivables, deposits and prepayments	9.6	**47,029**	44,023	**255**	97
Foreign exchange contracts	9.4	**–**	233	**–**	–
		51,111	46,734	**873,787**	623,603
		391,483	461,081	**873,787**	623,603

During the year, trade receivables impaired in the prior years amounting to RM19,809,000 have been written off.

9. Receivables, Deposits and Prepayments (Continued)

9.1 Analysis of foreign currency exposure for significant receivables

Significant receivables outstanding at year end that are not in Ringgit Malaysia, the functional currency of the Group entities, are as follows:

	Group	
	2008 RM'000	2007 RM'000
Foreign currency		
USD	**148,619**	144,623
BND	**9,702**	8,318
THB	**2,055**	2,338
EUR	**–**	719
SGD	**1,636**	535

9.2 Loans to employees

Loans to employees are unsecured, interest free and are not expected to be repayable within the next twelve months.

9.3 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 unsecured, interest free and repayable on demand.

9.4 Commodity futures and foreign exchange contracts

The commodity futures and foreign exchange contracts are designated as cash flow hedges.

The unrealised gain from the effective hedging of the foreign exchange contracts and commodity futures of Nil (2007: RM233,000) and RM4,338,000 (2007 – RM1,819,000) respectively was recognised in equity at year end.

The gains are expected to be recognised in the income statement when the forecasted transactions occur as follows:

	Gains	
	2008 RM'000	2007 RM'000
Group		
Foreign exchange contracts		
Less than three months	**–**	233
Commodity futures		
Cocoa		
Less than three months	**669**	1,002
Between three months and one year	**3,669**	817
	4,338	1,819

9. Receivables, Deposits and Prepayments (Continued)

9.5 Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, subject to interest at 3.61% (2007 – 3.61% to 3.79%) per annum and repayable on demand.

9.6 Other receivables, deposits and prepayments

Included in other receivables, deposits and prepayments of the Group are loans to employees of RM9,980,000 (2007 – RM9,597,000) which are unsecured and interest free.

10. Inventories

	Group	
	2008 RM'000	2007 RM'000
Raw and packaging materials	**181,603**	211,578
Work-in-progress	**33,058**	27,016
Finished goods	**224,643**	188,821
Spare parts	**20,185**	19,187
	459,489	446,602

11. Cash and Cash Equivalents

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Deposits placed with licensed banks	**1,040**	17,240	**1,040**	17,240
Cash and bank balances	**24,650**	14,430	**2**	128
	25,690	31,670	**1,042**	17,368

12. Capital and Reserves

12.1 Reconciliation of movement in capital and reserves

Group	Note	Share capital RM'000	Share premium RM'000	Hedging reserve RM'000	Retained earnings RM'000	Total equity RM'000
		Attributable to equity holders of the Company				
		Non-Distributable			*Distributable*	
At 1 January 2007		234,500	33,000	(2,237)	293,843	559,106
Cash flow hedge						
Effective portion of changes in fair value		–	–	1,067	–	1,067
Transferred to income statement		–	–	2,237	–	2,237
Net gain on cash flow hedge		–	–	3,304	–	3,304
Defined benefit plan actuarial gains, net of tax		–	–	–	17,312	17,312
Net gain recognised directly in equity		–	–	3,304	17,312	20,616
Profit for the year		–	–	–	292,042	292,042
Total recognised income and expense for the year		–	–	3,304	309,354	312,658
Dividends to equity holders	20	–	–	–	(234,505)	(234,505)
At 31 December 2007		234,500	33,000	1,067	368,692	637,259
At 1 January 2008		234,500	33,000	1,067	368,692	637,259
Cash flow hedge						
Effective portion of changes in fair value		–	–	(2,814)	–	(2,814)
Transferred to income statement		–	–	(1,067)	–	(1,067)
Net loss on cash flow hedge		–	–	(3,881)	–	(3,881)
Defined benefit plan actuarial losses, net of tax		–	–	–	(12,960)	(12,960)
Net loss recognised directly in equity		–	–	(3,881)	(12,960)	(16,841)
Profit for the year		–	–	–	340,887	340,887
Total recognised income and expense for the year		–	–	(3,881)	327,927	324,046
Dividends to equity holders	20	–	–	–	(445,550)	(445,550)
At 31 December 2008		**234,500**	**33,000**	**(2,814)**	**251,069**	**515,755**

12. Capital and Reserves (Continued)

12.1 Reconciliation of movement in capital and reserves (continued)

Company	Note	Non-distributable Share capital RM'000	Share premium RM'000	Distributable Retained earnings RM'000	Total equity RM'000
At 1 January 2007		234,500	33,000	168,214	435,714
Profit for the year		–	–	263,135	263,135
Dividends to equity holders	20	–	–	(234,505)	(234,505)
At 31 December 2007/1 January 2008		234,500	33,000	196,844	464,344
Profit for the year		–	–	436,319	436,319
Dividends to equity holders	20	–	–	(445,550)	(445,550)
At 31 December 2008		**234,500**	**33,000**	**187,613**	**455,113**

12.2 Share capital

	Group and Company Amount 2008 RM'000	Number of shares 2008 '000	Amount 2007 RM'000	Number of shares 2007 '000
Ordinary shares of RM1 each				
Authorised	**300,000**	**300,000**	300,000	300,000
Issued and fully paid:	**234,500**	**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.

12.3 Share premium

Share premium relates to the amount that equity holders have paid for the shares in excess of the nominal value.

12.4 Hedging reserve

Hedging reserve relates to the effective part of any gains or losses on derivative financial instruments recognised directly in the equity.

13. Loans and Borrowings

	Group 2008 RM'000	Group 2007 RM'000
Non-current		
Finance lease liabilities – secured	**2,690**	5,179
Current		
Revolving credit – unsecured	**103,000**	120,100
Banker's acceptances – unsecured	**–**	80,000
Finance lease liabilities – secured	**2,953**	2,603
Medium term notes – unsecured	**–**	100,000
	105,953	302,703

13.1 Terms and debt repayment schedule

Group	Year of maturity	Carrying amount RM'000	Under 1 year RM'000	1 – 2 years RM'000	2 – 5 years RM'000
2008					
Revolving credit	**2009**	**103,000**	**103,000**	**–**	**–**
Finance lease liabilities	**2009-2012**	**5,643**	**2,953**	**1,716**	**974**
		108,643	**105,953**	**1,716**	**974**
2007					
Revolving credit	2008	120,100	120,100	–	–
Banker's acceptances	2008	80,000	80,000	–	–
Finance lease liabilities	2009-2012	7,782	2,603	2,824	2,355
Medium term notes	2008	100,000	100,000	–	–
		307,882	302,703	2,824	2,355

13. Loans and Borrowings (Continued)

13.2 Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Minimum lease payments 2008 RM'000	Interest 2008 RM'000	Principal 2008 RM'000	Minimum lease payments 2007 RM'000	Interest 2007 RM'000	Principal 2007 RM'000
Less than one year	**3,355**	**402**	**2,953**	3,234	631	2,603
Between one and five years	**2,904**	**214**	**2,690**	5,734	555	5,179
	6,259	**616**	**5,643**	8,968	1,186	7,782

The Group leases certain plant and machinery amounting to RM13,526,000 (2007 – RM12,945,000) under finance leases expiring from 2009 to 2012. At the end of the lease term, the Group has the option to purchase the asset at RM1, a price deemed to be a bargain purchase option.

14. Employee Benefits

Retirement benefits

	Group 2008 RM'000	Group 2007 RM'000
Present value of funded obligations	**188,217**	173,162
Fair value of plan assets	**(133,519)**	(132,841)
Recognised liability for defined benefit obligations	**54,698**	40,321

The Group operates a defined benefit scheme which is administered by Nestlé Malaysia Group Retirement Scheme. Prior to 1 November 2007, the Scheme covers only full time permanent and confirmed local employees of the Group. Following an amendment to the rules of the Scheme on 1 November 2007, the Scheme is extended to cover expatriate management employees as from 1 November 2007. A prior amendment to the rules of the Scheme on 6 April 2005 results in the deferment of retirement age to 60 years old for new hires employed as from 1 January 2005.

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 Employees Provident Fund (EPF) benefits derived from employee and employer contributions made throughout the period of EPF membership integrated thereto. For employees whose services with the Group commence on or after 1 January 1992, lump sum retirement benefits are made available under the Scheme, in place of the monthly pension, equal to the accumulation of Group contributions plus interest credited at EPF dividend rate.

14. Employee Benefits (Continued)

Retirement benefits (continued)

Plan assets comprise the following:

	Group	
	2008 RM'000	2007 RM'000
Quoted investments	**68,551**	75,021
Unquoted investments	**9,938**	21,893
Loan to an unquoted corporation	**–**	2,291
Cash and cash equivalents	**47,155**	25,168
Others	**7,875**	8,468
	133,519	132,841

Movements in the present value of the defined benefit obligations

	Group	
	2008 RM'000	2007 RM'000
Defined benefit obligations at 1 January	**173,162**	159,686
Benefits paid by the plan	**(11,158)**	(9,433)
Current service costs and interest	**20,052**	19,219
Actuarial losses recognised in equity	**6,161**	3,690
Defined benefit obligations at 31 December	**188,217**	173,162

Movement in the fair value of plan assets

	Group	
	2008 RM'000	2007 RM'000
Fair value of plan assets at 1 January	**132,841**	95,409
Contributions paid into the plan	**13,611**	11,319
Benefits paid by the plan	**(11,158)**	(9,433)
Expected return on plan assets	**9,343**	6,643
Actuarial (losses)/gains recognised in equity	**(11,118)**	28,903
Fair value of plan assets at 31 December	**133,519**	132,841

14. Employee Benefits (Continued)

Retirement benefits (continued)

Expense recognised in the income statement

		Group	
	Note	2008 RM'000	2007 RM'000
Current service costs		**8,328**	5,257
Interest on obligation		**11,724**	10,803
Expected return on plan assets		**(9,343)**	(6,643)
Past service cost		**–**	3,159
	16	**10,709**	12,576

The expense is recognised in the following line items in the income statement:

		Group	
	Note	2008 RM'000	2007 RM'000
Cost of goods sold		**4,451**	4,888
Distribution and selling expenses		**4,472**	5,344
Administrative expenses		**1,786**	2,344
	16	**10,709**	12,576
Actual return on plan assets		**(1,773)**	21,358

Actuarial gains and losses recognised directly in equity

	Group	
	2008 RM'000	2007 RM'000
Cumulative amount at 1 January	**6,126**	(19,087)
Recognised during the year	**(17,279)**	25,213
Cumulative amount at 31 December	**(11,153)**	6,126

14. Employee Benefits (Continued)

Retirement benefits (continued)

Actuarial assumptions

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	Group	
	2008	**2007**
Discount rate at 31 December	**7.0%**	7.0%
Expected return on plan assets at 1 January	**7.0%**	7.0%
Future salary increases	**5.5%**	5.5%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring is at age 55 years.

The overall expected long-term rate of return on assets is 7.0%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Historical information

Group	2008 RM'000	2007 RM'000	2006 RM'000	2005 RM'000	2004 RM'000	2003 RM'000
Present value of the defined benefit obligation	**188,217**	173,162	159,686	150,065	136,395	126,339
Fair value of plan assets	**(133,519)**	(132,841)	(95,409)	(86,136)	(86,340)	(80,114)
Deficit in the plan	**54,698**	40,321	64,277	63,929	50,055	46,225
Experience adjustments arising on plan liabilities	**(6,161)**	(1,683)	3,342	6,110	168	3,657
Experience adjustments arising on plan assets	**(11,118)**	14,715	1,462	(7,370)	(1,838)	2,238

The Group expects to pay RM12,645,000 in contributions to defined benefit plans in 2009.

15. Payables and Accruals

		Group		Company	
	Note	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Trade					
Trade payables		**261,215**	310,439	**–**	–
Amounts due to related companies	15.2	**53,513**	34,122	**–**	–
Amount due to an associate	15.2	**15,433**	9,029	**–**	–
Commodity futures	15.3	**7,822**	–	**–**	–
		337,983	353,590	**–**	–
Non-trade					
Amounts due to related companies	15.2	**378,566**	85,717	**–**	–
Amounts due to subsidiaries	15.4	**–**	–	**655,125**	411,984
Other payables		**25,542**	27,775	**100**	158
Accrued expenses		**161,998**	83,105	**541**	321
Foreign exchange contracts	15.3	**279**	–	**–**	–
		566,385	196,597	**655,766**	412,463
		904,368	550,187	**655,766**	412,463

15.1 Analysis of foreign currency exposure for significant payables

Significant payables that are not in Ringgit Malaysia, the functional currency of the Group entities, are as follows:

	Group	
	2008 RM'000	2007 RM'000
Foreign currency		
USD	**57,075**	64,648
JPY	**3,515**	50,150
GBP	**36,862**	17,225
AUD	**371**	15,548
SGD	**13,475**	8,520
EUR	**4,771**	8,152
CHF	**4,753**	2,992

15. Payables and Accruals (Continued)

15.2 Amounts due to related companies and an associate

The amounts due to related companies and an associate are unsecured, repayable on demand and interest free, except for the short term loan from related companies amounted to RM319,264,400 (2007 – RM50,150,000) which is denominated in Ringgit Malaysia and subject to interest at KLIBOR + 0.67% (2007 – 3.72%) per annum.

15.3 Commodity futures and foreign exchange contracts

The commodity futures and foreign exchange contracts are designated as cash flow hedges.

The unrealised loss on the effective hedging of the foreign exchange contracts and commodity futures of RM279,000 (2007: Nil) and RM7,822,000 (2007: Nil) respectively was recognised in equity at year end.

The losses are expected to be recognised in the income statement when the forecasted transactions occur as follows:-

	Losses	
	2008 RM'000	2007 RM'000
Foreign exchange contracts		
Less than three months	**279**	–
Commodity futures		
Coffee and palm oil		
Less than three months	**3,965**	–
Between three months and one year	**3,857**	–
	7,822	–

15.4 Amounts due to subsidiaries

The amounts due to subsidiaries are unsecured and subject to interest at 3.61% (2007 – 3.61% to 3.79%) per annum and repayable on demand.

16. Operating Profit

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Operating profit is arrived at after charging:					
Amortisation of intangible assets	4	**256**	5,062	**–**	–
Amortisation of prepaid lease payments	5	**1,035**	1,035	**–**	–
Auditors' remuneration:					
– Statutory audit		**386**	386	**97**	97
– Other services		**150**	152	**130**	130
Depreciation on property, plant and equipment	3	**74,124**	71,327	**–**	–
Finance costs		**23,091**	14,842	**25,221**	19,918
Impairment of trade receivables		**1,089**	10,520	**–**	–
Impairment loss on property, plant and equipment	3	**–**	1,889	**–**	–
Net foreign exchange loss					
– unrealised		**1,872**	3,353	**–**	–
– realised		**–**	13,064	**–**	–
Personnel expenses (including key management personnel):					
– Expenses related to defined benefit plans	14	**10,709**	12,576	**–**	–
– Contributions to Employees Provident Fund		**26,532**	23,018	**–**	–
– Share based payments		**5,285**	5,184	**–**	–
– Wages, salaries and others		**323,511**	281,824	**–**	–
Property, plant and equipment written off		**208**	1,222	**–**	–
Rental on land and buildings		**32,567**	33,437	**–**	–
and after crediting:					
Dividend income from subsidiaries (unquoted)		**–**	–	**435,126**	360,143
Dividend income from an associate (unquoted)		**133**	131	**133**	131
Gain on disposal of property, plant and equipment		**1,185**	927	**–**	–
Net foreign exchange gain					
– realised		**4,251**	–	**–**	–
Interest income		**139**	443	**28,219**	21,667
Reversal of impairment of trade receivables		**2,438**	1,147	**–**	–

17. Key Management Personnel Compensation

The key management personnel compensations are as follows:

	Group		Company	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Directors				
– Fees	**220**	220	**220**	220
– Remuneration	**3,742**	3,241	**–**	–
Other short term employee benefits (including estimated monetary value of benefits-in-kind)	**1,040**	902	**50**	40
Total short-term employee benefits	**5,002**	4,363	**270**	260
– Post-employment benefits	**248**	393	**–**	–
– Share-based payments	**1,379**	1,540	**–**	–
	6,629	6,296	**270**	260
Other key management personnel:				
– Short-term employee benefits	**6,721**	5,110	**–**	–
– Post-employment benefits	**142**	61	**–**	–
– Share-based payments	**2,053**	2,389	**–**	–
	8,916	7,560	**–**	–
	15,545	13,856	**270**	260

Other key management personnel comprises 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 defined benefit plan on their behalf.

18. Tax Expense

Recognised in the income statements

	Note	Group 2008 RM'000	Group 2007 RM'000	Company 2008 RM'000	Company 2007 RM'000
Tax expense		**100,466**	103,256	**612**	97,550
Share of tax of equity accounted associate		**106**	62	**–**	–
Total tax expense		**100,572**	103,318	**612**	97,550
Major components of tax expense include:					
Current tax expense					
Malaysian – current year		**89,828**	97,380	**612**	97,550
– prior year		**164**	5,893	**–**	–
Total current tax		**89,992**	103,273	**612**	97,550
Deferred tax expense					
Origination and reversal of temporary differences		**10,474**	(17)	**–**	–
Total deferred tax	8	**10,474**	(17)	**–**	–
Share of tax of equity accounted associate		**106**	62	**–**	–
Total tax expense		**100,572**	103,318	**612**	97,550
Reconciliation of tax expense					
Profit for the year		**340,887**	292,042	**436,319**	263,135
Total tax expense		**100,466**	103,256	**612**	97,550
Profit excluding tax		**441,353**	395,298	**436,931**	360,685
Tax at Malaysian tax rate of 26% (2007 – 27%)		**114,752**	106,730	**113,602**	97,385
Effect of change in tax rate*		**(480)**	(2,399)	**–**	–
Non-deductible expenses		**4,143**	3,837	**177**	165
Tax exempt income		**–**	–	**(113,167)**	–
Tax incentives		**(18,438)**	(11,182)	**–**	–
Other items		**325**	377	**–**	–
		100,302	97,363	**612**	97,550
Under provided in prior years		**164**	5,893	**–**	–
		100,466	103,256	**612**	97,550
Tax expense on share of profit of associate		**106**	62	**–**	–
		100,572	103,318	**612**	97,550

- *The corporate tax rates are 26% for year of assessment 2008 and 25% for the subsequent years of assessment. Consequently, deferred tax assets and liabilities are measured using these tax rates.*

18. Tax Expense (Continued)

Tax recognised directly in equity

	Note	Group 2008 RM'000	2007 RM'000
Actuarial loss/(gains)	8	**4,319**	(7,901)
Net loss/(gain) on cash flow hedge	8	**1,333**	(1,266)
Total tax recognised directly in equity		**5,652**	(9,167)

19. Earnings Per Ordinary Share

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share at 31 December 2008 was based on the profit attributable to ordinary equity holders of RM340.9 million (2007 – RM292.0 million) and 234.5 million (2007 – 234.5 million) ordinary shares outstanding during the year.

20. Dividends

Dividends recognised in the current year by the Company are:

	Sen per share	Total amount RM'000	Date of payment
2008			
Special			
Tax exempt (single-tier)	**61.19**	**143,491**	**29 May 2008**
Interim 2008 ordinary			
Tax exempt (single-tier)	**50.00**	**117,250**	**24 September 2008**
Final 2007 ordinary			
Taxable	**78.81 (net of tax)**	**184,809**	**29 May 2008**
Total amount		**445,550**	
2007			
Interim 2007 ordinary			
Taxable – First	15.00 (net of tax)	35,175	31 May 2007
– Second	20.00 (net of tax)	46,905	25 September 2007
Final 2006 ordinary			
Taxable	54.00 (net of tax)	126,630	31 May 2007
Tax exempt	11.00	25,795	31 May 2007
Total amount		234,505	

20. Dividends (Continued)

After the balance sheet date, the following dividend was proposed by the Directors. This dividend will be recognised in subsequent financial reports upon approval by the equity holders.

	Group	
	Sen per share	Total amount RM'000
Final ordinary		
Tax exempt (single-tier)	80.00	187,600

21. Segment Information

As the principal activity of the Group is manufacturing, marketing and sale of food products in Malaysia, no segment analysis is provided. Approximately 23.7% (2007 – 22%) of the total sales are exports, mainly to South East Asia and Middle East countries based on location of customers.

22. Financial Instruments

Exposure to credit, commodity contract, interest rate, liquidity and currency risk arises in the normal course of the Group's business. For this, the Group adopts the written risk management policies and guidelines issued by the parent company, Nestlé S.A., which set out the overall business strategies, the tolerance to risks and the general risk management philosophy. The Group has established processes to monitor and control the hedging of transactions in a timely and accurate manner. All new guidelines and latest updates on the policies are reviewed regularly and monitored by management and the Board of Directors to ensure that the policy and guidelines are adhered to.

Credit 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. All major customers are required to have collateral in the form of financial assets and/or bank guarantees.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheets.

22. Financial Instruments (Continued)

Commodity contract risk

The Group incurs commodity contract risk on sales and purchases of main commodities like coffee, cocoa and palm oil. The contracts giving rise to this risk are primarily futures contracts and options mainly in US Dollars and British Pound Sterling.

Commodity instruments are used to ensure the Group's access to raw materials at an appropriate price.

Palm oil contracts are transacted by Nestlé specialists based in Nestlé Singapore, whilst coffee and cocoa commodity contracts are transacted by Nestlé specialists based in Nestlé UK on behalf of the Group in order to obtain better leverage. Following the guidelines set out by the parent company, all commodity contracts are for the purpose of hedging to protect the Group from price fluctuations.

Foreign currency risk

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.

Interest rate risk

Interest rates of the Group's borrowings vary with reference to the prime lending rates of the banks except for medium term notes and finance lease obligations where interest rates are fixed.

Effective interest rates and repricing analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their average effective interest rates at the balance sheet date and the periods in which they mature, or if earlier, reprice.

Group	Note	Average effective interest rate %	Total RM'000	Less than 1 year RM'000	1 – 2 years RM'000	2 – 3 years RM'000	3 –4 years RM'000
2008							
Fixed rate instruments							
Finance lease liabilities	13	**9.52**	**5,643**	**2,953**	**1,716**	**818**	**156**
Floating rate instruments							
Deposits with licensed banks	11	**2.80**	**1,040**	**1,040**	**–**	**–**	**–**
Amount due to a related company	15	**4.35**	**319,264**	**319,264**	**–**	**–**	**–**
Revolving credit	13	**4.00**	**103,000**	**103,000**	**–**	**–**	**–**
			422,264	**422,264**	**–**	**–**	**–**

22. Financial Instruments (Continued)

Effective interest rates and repricing analysis (continued)

Group	Note	Average effective interest rate %	Total RM'000	Less than 1 year RM'000	1 – 2 years RM'000	2 – 3 years RM'000	3 –4 years RM'000	4 – 5 years RM'000
2007								
Fixed rate instruments								
Finance lease liabilities	13	9.54	7,782	2,603	2,824	1,608	715	32
Medium term notes	13	3.57	100,000	100,000	–	–	–	–
			107,782	102,603	2,824	1,608	715	32
Floating rate instruments								
Deposits with licensed banks	11	3.00	17,240	17,240	–	–	–	–
Amount due to a related company	15	3.72	50,150	50,150	–	–	–	–
Revolving credit	13	3.88	120,100	120,100	–	–	–	–
Banker's acceptances	13	3.68	80,000	80,000	–	–	–	–
			250,250	250,250	–	–	–	–

Company	Note	Average effective interest rate %	Total RM'000	Less than 1 year RM'000
2008				
Floating rate instruments				
Deposits with licensed banks	**11**	**2.80**	**1,040**	**1,040**
Fixed rate instruments				
Amount due from subsidiaries	**9**	**3.61**	**873,532**	**873,532**
Amount due to subsidiaries	**15**	**3.61**	**655,125**	**655,125**
2007				
Floating rate instruments				
Deposits with licensed banks	11	3.00	17,240	17,240
Amount due from subsidiaries	9	3.70	623,506	623,506
			640,746	640,746
Fixed rate instruments				
Amount due to subsidiaries	15	3.70	411,984	411,984

22. Financial Instruments (Continued)

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents and bank credit lines deemed adequate by the management to finance the Group's operations and to mitigate the effect of fluctuation in cash flows.

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Group. The currencies giving rise to this risk are primarily US Dollars, Brunei Dollars, Swiss Francs, British Pound Sterling, Australian Dollars, Euros, Thai Baht and Japanese Yen.

The Group hedges a portion of all foreign trade receivables and trade payables denominated in foreign currency. Following the guidelines set out by the parent 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.

Fair values

The Company provides financial guarantee to banks for credit facilities extended to a subsidiary. The fair value of such financial guarantees is not expected to be material as the probability of the subsidiaries defaulting on the credit lines is remote.

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007, except as follows:

		2008		2007	
Group	Note	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Finance lease liabilities	13	**5,643**	**5,204**	7,782	6,782

Estimation of fair values

Fair value is determined using estimated future cash flows discounted using market related rate for a similar instrument at the balance sheet date.

The interest rate used to discount estimated cash flows is as follow:

	2008	2007
Finance lease liabilities	**5.0%**	7.0%

23. Operating Leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2008 RM'000	2007 RM'000
Less than one year	**35,750**	35,361
Between one and five years	**62,483**	60,270
	98,233	95,631

The Group leases a number of warehouses, offices and residences under operating leases. The leases typically run for a period of one to five years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

24. Capital and Other Commitments

	Group	
	2008 RM'000	2007 RM'000
Capital expenditure commitments		
Plant and equipment		
Contracted but not provided for	**83,546**	28,219
Authorised but not contracted for	**235,933**	212,254
	319,479	240,473

25. Contingencies

The Directors are of the opinion that provision is not required in respect of the following matter, as it is not probable that a future sacrifice of economic benefits will be required.

	Company	
	2008 RM'000	2007 RM'000
Contingent liabilities not considered remote		
Guarantees relating to borrowings of a subsidiary		
– unsecured	**700,000**	700,000

26. Related Parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group 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 and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Key management personnel are 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 includes all the Directors of the Group, and certain members of senior management of the Group.

The significant related party transactions of the Group and the Company, other than key management personnel compensation, are as follows:

	Transaction value for the year ended 31 December		Balance outstanding as at 31 December	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Group				
Related companies				
– sales of goods and services	**816,977**	671,767	**143,009**	140,515
– purchases of goods and services	**418,295**	327,927	**38,283**	32,245
– IT shared services	**21,688**	21,513	**276**	14,685
– royalties	**152,904**	136,939	**10,966**	9,486
– interest costs	**6,956**	1,599	**2,816**	132
Company				
Subsidiaries				
– interest costs	**25,221**	19,893	**2,309**	1,744
– interest income	**28,080**	21,502	**2,444**	1,904

Statement by Directors

pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 10 to 54 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company at 31 December 2008 and of their financial performance and cash flows for the year then ended.

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

Sullivan O'Carroll

Marc Seiler

Petaling Jaya,
26 February 2009

Statutory Declaration

pursuant to Section 169(16) of the Companies Act, 1965

I, **Marc Seiler**, 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 10 to 54 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Petaling Jaya on 26 February 2009.

Marc Seiler

Before me:

Tan See Sang
Commissioner of Oaths (No. B325)

Petaling Jaya

Independent Auditors' Report

to the members of Nestlé (Malaysia) Berhad

Report on the Financial Statements

We have audited the financial statements of Nestlé (Malaysia) Berhad, which comprise the balance sheets as at 31 December 2008 of the Group and of the Company, and the income statements, statements of recognised income and expense and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 54.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 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 2008 and of their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

(b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(c) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG
Firm Number: AF 0758
Chartered Accountants

Chong Dee Shiang
Approval Number: 2782/09/10(J)
Chartered Accountant

Petaling Jaya,
26 February 2009

Shareholding Statistics

as at 27 February 2009

Authorised Capital	:	RM300,000,000
Issued and paid-up share capital	:	RM234,500,000
Class of shares	:	Ordinary shares of RM1.00 each
No. of shareholders	:	3,713
Voting rights	:	One vote per ordinary share

Substantial Shareholders

Name	Number of shares held	%
Nestlé S.A.	170,276,563	72.6126
Employees Provident Fund Board	16,116,300	6.8726
Malaysia Nominees (T) Sdn Bhd - Great Eastern Life Assurance (M) Bhd (Par 1)	5,983,410	2.5516

30 Largest Shareholders

Name	Number of shares held	%
Nestlé S.A.	170,276,563	72.6126
Employees Provident Fund Board	16,116,300	6.8726
Malaysia Nominees (T) Sdn Bhd – Great Eastern Life Assurance (M) Bhd (Par 1)	5,983,410	2.5516
Lembaga Tabung Haji	4,762,354	2.0309
Valuecap Sdn Bhd	4,701,400	2.0049
Kumpulan Wang Simpanan Pekerja	1,500,000	0.6397
Pertubuhan Keselamatan Sosial	1,345,800	0.5739
Amanah Raya Nominees (T) Sdn Bhd – Amanah Saham Wawasan 2020	1,248,400	0.5324
Kumpulan Wang Persaraan (Diperbadankan)	1,158,500	0.4940
Amanah Raya Nominees (T) Sdn Bhd – Skim Amanah Saham Bumiputera	1,055,500	0.4501
Permodalan Nasional Berhad	1,030,300	0.4394
Malaysia Nominees (T) Sdn Bhd – Great Eastern Life Assurance (M) Bhd (Par 2)	900,000	0.3838
Soon Cheong (Malaya) Sdn Bhd	646,698	0.2758
Malaysia Nominees (T) Sdn Bhd – Great Eastern Life Assurance (M) Bhd (Non Par 1)	570,800	0.2434
Amanah Raya Nominees (T) Sdn Bhd – Amanah Saham Malaysia	566,500	0.2416
Kwang Teow Sang Sdn Bhd	560,700	0.2391
Mayban Nominees (T) Sdn Bhd – Etiqa Takaful Bhd (Family Fund)	509,900	0.2174
Amanah Raya Nominees (T) Sdn Bhd – Amanah Saham Didik	480,800	0.2050
HSBC Nominees (A) Sdn Bhd – TNTC For Saudi Arabian Monetary Agency	460,000	0.1962
Amanah Raya Nominees (T) Sdn Bhd – Public Islamic Equity Fund	449,700	0.1918
Cartaban Nominees (A) Sdn Bhd – RBC Dexia Investor Services Bank for Vontobel Fund – Far East Equity	401,500	0.1712
Batu Pahat Seng Huat Sdn Bhd	363,985	0.1552
HSBC Nominees (A) Sdn Bhd – HSBC-FS for Aberdeen Malaysia Equity Fund	320,000	0.1365
Kuok Foundation Berhad	304,200	0.1297

30 Largest Shareholders (Continued)

Name	Number of shares held	%
Mayban Nominees (T) Sdn Bhd – Aberdeen Asset Management Sdn Bhd for Kumpulan Wang Persaraan (Diperbadankan) (FD 1 – 280305)	266,000	0.1134
HDM Nominees (T) Sdn Bhd – Nestlé Products Sdn Bhd for Soon Cheong (Malaya) Sdn Bhd	256,000	0.1092
AMSEC Nominees (T) Sdn Bhd – Aberdeen Asset Management Sdn Bhd for Tenaga Nasional Berhad Retirement Benefit Trust Fund (FM-Abedeen)	254,400	0.1085
Mayban Nominees (T) Sdn Bhd – Etiqa Insurance Berhad (Life Par Fund)	250,000	0.1066
Jarrnazz Sdn Bhd	248,000	0.1058
Amanah Raya Nominees (T) Sdn Bhd – Public Islamic Dividend Fund	236,400	0.1008

Size of Holdings	No. of Shareholders/ Depositors	% of Shareholders/ Depositors	No. of Shares Held	% of Issued Capital
1– 99	287	7.7296	2,360	0.0010
100 –1,000	2,217	59.7091	1,643,844	0.7010
1,001 – 10,000	902	24.2930	3,307,687	1.4105
10,001 – 100,000	249	6.7062	7,647,510	3.2612
100,001 – less than 5% of issued shares	56	1.5082	35,505,736	15.1411
5% and above of issued shares	2	0.0539	186,392,863	79.4852
Total	**3,713**	**100.0000**	**234,500,000**	**100.0000**

Directors' Shareholdings

The Company	Direct Interests (no. of shares)	% of Issued Capital	Deemed Interests (no. of shares)	% of Issued Capital
Gen. (R) Tan Sri Dato' Mohd. Ghazali Seth	10,000	0.0043	–	–
Dato' Frits van Dijk	8,000	0.0034	–	–
Mohd. Rafik bin Shah Mohamad	27,000	0.0115	–	–

List of Properties Held

at 31 December 2008

	Location	Tenure	Age*	Expiry Date	Size (sq. ft.)	Description	Net Book Value RM'000
1.	No. 25 Jalan Tandang 46050 Petaling Jaya Selangor	Leasehold	48	Q.T. (R) 2619 4.9.2058 Q.T. (R) 5281 12.6.2059	541,887	Factory	18,313
2.	Lot No. 3 Jalan Pelaya 15/1 40700 Shah Alam Selangor	Leasehold	38	10.6.2070	109,300	Factory	2,152
3.	Lot No. 5 Jalan Pelaya 15/1 40700 Shah Alam Selangor	Leasehold	35	H.S.(D) 97 H.S.(D) 159 7.11.2072	672,500	Factory	7,031
4.	Lot No. 6 Pesiaran Raja Muda 40700 Shah Alam Selangor	Leasehold	39	29.1.2070	396,500	Factory & warehouse	12,459
5.	Lot Nos. 691-696 Mukim Chembong Daerah Rembau Negeri Sembilan	Leasehold	17	27.6.2049	1,439,309.5	Factory	3,448
6.	Lot Nos. 3863-3866 and Lot Nos. 687-690 Mukim Chembong Daerah Rembau Negeri Sembilan	Leasehold	17	27.6.2049		Factory	
7.	Lot Nos. 3857-3862 Jalan Perusahaan 4, Kawasan Perindustrian Chembong, Chembong Rembau, Negeri Sembilan	Leasehold	17	27.6.2049	360,258	Factory	1,613
8.	Lot No. 844, Block 7 Muara Tebas Land District Sejingkat Industrial Estate Kuching, Sarawak	Leasehold	17	19.10.2053	274,050	Factory	379
9.	Lot 915, Block 7 Muara Tebas Land District Demak Laut Industrial Park Kuching, Sarawak	Leasehold	14	13.10.2054	184,912	Factory	720
10.	Plot 46 Bemban Industrial Park Batu Gajah, Perak	Leasehold	11	30.9.2056	1,694,923	Vacant land	6,818

* Approximation of age of property in years.