Nestlé

2012

CORPORATE GOVERNANCE & FINANCIAL REPORT

100 tahun Nestlé di sisimu®

Inside

Corporate Governance Statement

Throughout the years, Nestlé [Malaysia] Berhad and its Board of Directors ["Board"] has been resolute in ensuring that the Group's business and affairs are in strict adherence to the doctrine and principles of good corporate governance such as integrity, transparency, accountability and responsible business conduct.

Being a subsidiary of Nestlé S.A., of Vevey, Switzerland, the Group has adopted the "Corporate Governance Principles" of its holding company as the basis of its best practices in corporate governance. The principles of corporate governance as practised by the Group cover mainly 4 [four] areas, as follows:

- The rights and responsibilities of shareholders;
- The equitable treatment of shareholders;
- The duties and responsibilities of Directors; and
- Disclosure and transparency.

This corporate governance statement ["Statement"] sets out the adoption and practices of the above principles of corporate governance as well as the application of the 8 Principles and 26 Recommendations of the Malaysian Code on Corporate Governance 2012 ["MCCG 2012"], relevant chapters of the Main Market Listing Requirements ["Listing Requirements"] of Bursa Malaysia Securities Berhad ["Bursa"] on corporate governance and the internal requirements as codified in the Nestlé Code of Business Conduct.

PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND MANAGEMENT

Principal Responsibilities of the Board of Directors

The Board directs the Group's risk assessment, strategic planning, succession planning and financial and operational management to ensure that obligations to shareholders and other stakeholders are understood and met. The Board provides the leadership necessary to enable the Group's business objectives to be met within the framework of internal controls as described in this Statement.

Broadly, the Board assumes the following principal responsibilities in discharging its fiduciary and leadership functions:

- reviewing and adopting a strategic plan for the Group, including giving inputs to address the sustainability of the Group's business;
- overseeing the conduct of the Group's business, including the Group's and Management Team's performance, and evaluating whether or not its businesses are being properly managed;
- identifying principal business risks faced by the Group and ensuring the implementation of appropriate internal controls and mitigating measures to address such risks;
- ensuring that all candidates appointed to senior management positions are of sufficient calibre, including having in place a process to provide for the orderly succession of senior management personnel and members of the Board;
- giving inputs to the development and implementation of an investor relations programme and stakeholder communications policy; and
- reviewing the adequacy and integrity of the Group's internal control and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

To assist in the discharge of its stewardship role, the Board has established Board Committees, namely the Audit Committee, the Nomination Committee and the Compensation Committee, to which it has delegated certain responsibilities. The Board Committees have the authority to examine specific issues within their respective terms of reference as approved by the Board and report to the Board with their recommendations. All deliberations and decisions taken by the Board Committees are documented and approved by the respective Chairman of the Committees prior to submission as agenda items for deliberation at the meeting of the Board. The ultimate responsibility for decision making, however, lies with the Board. The Board Committees have their roles and functions, written terms of reference, operating procedures and authorities clearly defined. The Board reviews the Board Committees' authority and terms of reference from time to time to ensure their relevance.

Clear roles and responsibilities
The Board has a collective responsibility for the management of the Group. The Non-Executive Directors are responsible for bringing independent judgment and scrutiny to decisions taken by the Board and providing objective challenges to Management.

The Non-Executive Directors do not participate in the day-to-day management of the Group and do not engage in any business dealing or other relationship with the Group to ensure that they are capable of exercising judgment objectively and act in the best interest of the Group, its stakeholders and shareholders, including minority shareholders. To enhance accountability, the Board has specific functions reserved for the Board and those delegated to Management. There is a schedule of key matters reserved to the Board for its deliberation and decision to ensure the direction and control of the Group are in its hands.

Key matters reserved to the Board for decision comprise the following:

- acquisition and disposal or closure of a business;
- declaration of dividends and approval of financial statements, including accounting policies of the Group;
- establishment of new businesses;
- annual strategic plan;
- capital investment and disposal of tangible assets from existing business to third party;
- increase or reduction by a subsidiary of its authorised or issued capital;
- financing on the Group's activities;
- any corporate restructuring not covered by the above-mentioned paragraphs; and
- the change of name of any company in the Group and establishment of any new company.

The Board recognises the importance of establishing a single source of reference for Board activities through a Board Charter as recommended by the MCCG 2012. As such, the Board will take steps to formalise such a Charter to clearly delineate the roles of the Board, Board Committees and Management in order to provide a structured guidance for Directors and Management regarding their responsibilities of the Board, its Committees and Management, including the requirements of Directors in carrying out their stewardship role and in discharging their duties towards the Group as well as boardroom activities. Further, steps will be taken to make available the salient features of the Board Charter on the Company website www.nestle.com.my.

Code of Ethics for Directors and Code of Conduct
In discharging its responsibilities, the Board is guided by the code of ethics and principles contained in the Nestlé Code of Business Conduct and the Nestlé Corporate Business Principles in addition to the MCCG 2012. The Nestlé Code of Business Conduct and the Nestlé Corporate Business Principles outline the conduct and responsibilities of the Board and Management. The Board ensures that compliance is monitored through a Compliance Framework declaration process that requires all management employees, suppliers and service providers to declare their compliance, including any disclosures relating to existing and/or potential conflict of interest situations. The Directors of the Company have a duty to declare immediately to the Board should they be interested in any transaction to be entered into directly or indirectly by the Group.

The Nestlé Code of Business Conduct governs the conduct of all employees in the Group including the Board. Examples of provisions in the Nestlé Code of Business Conduct are, compliance with laws, rules and regulations, avoiding situations where there are conflicts of interest, interest in competing businesses, prohibition on the use of inside information, corporate opportunities, insider trading, whistle-blowing and no corrupt activities. The Nestlé Code of Business Conduct is premised on 3 [three] basic principles, which are, the avoidance of any conduct that could damage or risk the Group or its reputation, legal compliance and honesty and to place the Group's interests ahead of personal or other interests, guiding the way the Group's employees behave.

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In addition to the Nestlé Code of Business Conduct, all employees are also guided by the Nestlé Corporate Business Principles and also cover key issues that underpin corporate social responsibilities known as Creating Shared Value, catered to fit the unique characteristics of the Group. The Nestlé Corporate Business Principles focus on work place practices and ethics, employee relations and employee human rights. The 10 [ten] principles set out a common approach to the development of policies and procedures taking into account labour laws and practice and political, economic and cultural aspects. These principles can be summarised as follows:

- We delight consumers [Principles 1, 2, 3];
- We care about people [Principles 4, 5, 6];
- We develop responsible partnerships [Principles 7, 8]; and
- We promote sustainability [Principles 9, 10].

The Group is committed to high ethical standards and regards ethical conduct as a key success factor to the performance of the Group. The Nestlé Management and Leadership Principles issued by Nestlé S.A. have been applied within the Group and have been communicated to every employee within the organisation.

The Nestlé Management and Leadership Principles describe the culture, values and principles the Group expect from its employees to uphold as well as the attributes needed to be successful in a management and leadership positions. These principles are aligned to the Nestlé Corporate Business Principles as well as to the Nestlé Code of Business Conduct, in which "Leadership and Personal Responsibility" and non-negotiable minimum standards of employee behaviour are clearly depicted as key operational principles.

The Group emphasises on the need to develop Nestlé Managers who add value and are able to lead and inspire individuals rather than through the exercise of formal authority. This requires a high level of personal commitment of each employee and a common mind set geared towards results and performance. Achieving on-going success requires each Nestlé leader to understand and capitalise its context based on the following principles:

- Lead to win;
- Manage for results;
- Grow talent and teams; and
- Compete and connect externally.

The Group believes that the Nestlé Management and Leadership Principles are useful in helping Nestlé employees to be effective, engaging and inspiring by ensuring that they "walk the talk" and lead by example in their daily work.

The Nestlé Code of Business Conduct, the Nestlé Corporate Business Principles and the Nestlé Management and Leadership Principles are made available to employees and Directors on the Company's intranet whilst the Nestlé Corporate Business Principles is also available on the Company's corporate website at www.nestle.com.my. Copies of the documents may also be obtained from the Company Secretary.

Whistle-blowing Policy

One of the key provisions in the Nestlé Code is reporting on illegal or non-compliant conduct. The Board acknowledges that misconduct such as violation of laws, rules, regulations, production fault, fraud, health and safety violations or corruption are usually known first by the people who work in or with the Group. An early warning system such as a whistle-blowing policy and procedure can help the Group detect wrongdoings and alert the Group to take corrective action before a problem becomes a crisis. To address this concern, the Group has formalised a Compliance Framework, to oversee the overall compliance of the Group with the relevant policies, guidelines, instructions, laws and regulations in conducting its business. This includes the establishment of a Non-Compliance Hotline facility [whistle blowing hotline] whereby any employee, supplier or 3rd party may call up or send an email to the hotline to report on any non-compliance situation in the Company.

A whistle-blowing system strengthens, supports good management and at the same time demonstrates accountability, provides good risk management and sound corporate governance practices. It is the belief of the Group that having a whistle-blowing policy in place increases investors' confidence in the Group and is in line with the Group's sound corporate governance practices. This was further enhanced with the Whistle-blower Protection Act 2010, where a whistle-blower must be given proper protection against an employer while a complaint is being investigated.

The Group's employees are strongly encouraged to speak up and raise any suspicions of wrong-doing, malpractice or impropriety in the management of the Group's business by bringing up these issues with their line managers or through the internal whistle-blowing procedure which was implemented in year 2011. The internal whistle-blowing procedure is an integral part of a comprehensive framework which outlines when, how and to whom a concern may be properly raised, distinguishes a concern from a personal grievance, and allows the whistle-blower the opportunity to raise a concern outside his or her management line. Additionally, in order to respect anonymity of the whistle-blower in a certain situation, the procedure involves a third party service provider, which provides a hotline for employees via free phone call or internet website. The third party does not disclose any information to identify the whistle-blower. An employee who believes in good faith that it is his or her duty to report suspected misconduct and who discloses information is protected by the Group from coercion, retaliation or reprisal in connection with his or her cooperation. Protection is extended through the discipline and appeal process, including safe-guarding the identity of the whistle-blower.

These procedures enable employees to make their concerns known without fear of retaliation and in the knowledge that procedures are in place, where their complaints are acted upon and their identity is kept confidential. Any concerns raised are investigated by an investigation team which comprises of Senior Managers and reports and updates are provided to the Board, through the Audit Committee.

Compliance Framework and Compliance Programme

In 2011, the Group established a two-tier Compliance Framework, to oversee the overall compliance of the Group with the relevant policies, guidelines, instructions, laws and regulations in conducting its business. The first-tier, which is the Committee of Compliance Champions, and is made up of representatives of each business and function units which are mostly represented by the respective Business Controllers. The Compliance Champions are responsible for coordinating the compliance assessment in their respective units. In order to facilitate the assessment, a tracking tool that incorporates a list of all compliance requirements was established.

The tracking tool, known as the Compliance Matrix, contains the timeline for specific compliance gaps to be addressed and the action plans to ensure that all compliance gaps are addressed appropriately and acted upon based on target dates.

The Compliance Champion Meetings are chaired by the Executive Director, Legal & Secretarial as the custodian of Compliance, and the agenda of the meetings typically involve discussions on the progress on the assessments, gaps identified by the Compliance Champions and the action plan status. For the financial year ending 31 December 2012, there were 4 [four] meetings of the Committee of Compliance Champions.

The issues raised in these meetings were escalated to the Compliance Steering Committee, which is the second-tier in the Compliance Framework. The Compliance Steering Committee is chaired by the Managing Director and comprises of other members of the Management Team. The Compliance Steering Committee is responsible in setting the direction of the compliance framework and to support the successful execution of the framework. All matters discussed in the meeting of the Committee of Compliance Champions are summarised and escalated to the Compliance Steering Committee to report and confirm the status of the identified gaps and the progress of the action plans.

The Compliance programme is a continuous monitoring programme in which the relevant policies, guidelines, instructions, laws and regulations are updated regularly to ensure the Compliance Matrix contains up to date information. A database is also made available which stores the Group's legal and compliance related agreements to facilitate stakeholders, should access to the said documents be required.

Competition Law and Compliance Guidelines

In light of the newly enacted Competition Act 2010 coming into effect on 1 January 2012, the Group successfully embarked on a comprehensive awareness programme to ensure that the Group continues to remain in compliance with all applicable laws in the country whilst operating in compliance to the Nestlé Corporate Business Principles.

From as early as year 2011, the Group has actively taken steps to review the way its business operates and has taken the necessary measures to ensure that the Group is in compliance with the Competition Act 2010.

As part of its compliance programme, the Group has developed a roadmap to inculcate and encourage awareness on the Competition Act 2010, which includes amongst others, training for employees, revamp of agreements which contain elements which may not be in compliance with the Competition Act, the development and dissemination of a Competition Law Manual to all employees, inculcating competition readiness audit, as well as increasing resources in the Legal Department with a focus on competition law and its compliance.

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For the financial year ended 31 December 2012, the Group had conducted 34 competition law trainings across the business/function units of the Group. The trainings are aimed to impart the relevant knowledge and raise the awareness among the employees on the importance to comply with the Competition Act 2010 and not to engage in any conduct that transgresses the Competition Act 2010.

The Group engages experts in Competition Law, where required, to assist the Group in reviewing and if necessary, amending the agreements to ensure that they are in compliance with the Competition Act 2010.

In the last quarter of 2011, the Group engaged the expertise of Nestlé S.A through its Zone Antitrust Counsel to conduct a competition readiness audit for the Group. The overall observation arising from the competition readiness audit clearly reported that fundamental measures have been successfully implemented to steer the Company towards compliance. In October 2012, a follow up audit on competition readiness was carried out and the result of the audit achieved a "Satisfactory" rating.

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

Suppliers and Service Providers
The Nestlé Code of Business Conduct, Nestlé Corporate Business Principles and the Nestlé Supplier Code are also binding on the Group's suppliers and service providers to ensure high standards of business ethics amongst all suppliers and service providers of the Group including the suppliers or service providers of the Group's related companies.
These Standards are incorporated into the contract with the relevant supplier or service provider. It is made clear in all agreements with suppliers and service providers that breaches relating to any provisions in the Standards of which the relevant supplier or service provider has been made aware of, may lead to immediate termination of the contract with the affected supplier or service provider.

Sustainability of Business
The Board is cognisant of the importance of business sustainability and, in conducting the Group's business, the impact on the environment, social and governance shall be taken into consideration. The Group also embraces sustainability in its operations and throughout its value chain and in partnership with its stakeholders, including suppliers, customers and other organisations

Apart from the Nestlé Code of Business Conduct, Nestlé Corporate Business Principles and the Nestlé Management and Leadership Principles, the Group has in place other internal policies and guidelines to address corporate sustainability. These refer to the internal policies, standards and guidelines such as the Nestlé Supplier Code and the Company Standing Instructions on Procurement of Services which clearly define broad objectives on engaging good quality service providers to protect the Group's customer service whilst observing competitive and transparent bidding process to deliver competitive pricing. The following awards are testimony of the Group's commitment to manage its business responsibly:

Awards and Achievements	Putra Brand Awards 2012
	The Edge Billion Ringgit Club 2012
	National Annual Corporate Report Awards [NACRA] 2012
	The Effie Awards Malaysia 2012
	Malaysian Book of Records 2012

The Group's corporate sustainability directions and activities are disclosed in a separate report titled Creating Shared Value Report 2012.

Access to Information and Advice
From time to time, whenever the Board requires relevant information updates from any members of the Management Team, the relevant member of the Management Team is invited to attend meetings of the Board and to provide the Board with any such relevant information or updates.

In 2012, the following information was presented by the Management Team to the Board:
- Nestlé 100 Years Celebration;
- New Product Launches; and
- New Market Return Policy.

The Board and the Board Committees receive timely and up-to-date information and the Company Secretary, under the direction of the Chairman, ensures a balanced flow of information is disseminated for decisions to be made on an informed basis and for the effective discharge of the Board's responsibilities. Prior to the Board and Board Committees meetings, a formal and structured agenda, together with a set of Board and Board Committees papers, are forwarded to all Directors at least 5 [five] days prior to the Board and Board Committees meetings, to enable the Board to make decisions and for Directors to be prepared to deal with matters arising from such meetings. The Board firmly believes that effective deliberation and its decision making process is highly dependent on the quality of information furnished by Management.

Presentations to the Board and the Board Committees are prepared and delivered in a manner that ensures a clear and adequate understanding of the subject matter. In addition, reading materials on the subject matter are prepared and circulated prior to each meeting to assist Directors in having an understanding of the subject matter. The Management Team and external advisers are invited to attend Board and Board Committee meetings, as the case may be, to provide additional insights and professional views, advice and explanations on specific items on the meeting agenda.

Every Director has unrestricted access to information within the Group. There is also a formal procedure approved by the Board for all Directors, whether acting as a full Board or Board Committee or in their individual capacity, to obtain independent professional advice, when necessary, at the Company's expense. Prior to engaging an independent adviser, approval must be obtained from the Chairman and, where applicable, the Chairman may circulate the external advice to the Board.

All Directors have unrestricted access to the advice and services of the Group Secretary to enable them to discharge their duties effectively. The Company Secretary, who is qualified, experienced and competent, advises the Board on any updates relating to new statutory and regulatory requirements pertaining to the duties and responsibilities of Directors and their impact and implication to the Company and Directors in carrying out their fiduciary duties and responsibilities.

The Company Secretary organises and attends all Board and Board Committee meetings and ensures meetings are properly convened; accurate and proper records of the proceedings and resolutions passed are maintained accordingly at the registered office of the Company; and produced for inspection, if required. The removal of the Company Secretary is a matter for the Board, as a whole, to decide.

PRINCIPLE 2 – STRENGTHEN THE COMPOSITION OF THE BOARD

During the financial year, the Board consisted of 7 [seven] members, 5 [five] of whom are Non-Executive Directors [including the Chairman] with the remaining 2 [two] Executive Directors. 4 [four] out of 5 [five] Non-Executive Directors are Independent, Non-Executive Directors. This composition fulfils the requirements mandated by the Listing Requirements of Bursa, which stipulate that at least two [2] Directors or one-third of the Board, whichever is higher, must be Independent. The profile of each Director is set out in pages 28 to 31 of the Corporate Report.

As at the date of this Statement, the size and composition of the Board is well balanced in its current constituted state, to address any business challenges and to drive the business of the Group to greater heights. The Board comprises a mixture of Executive and Non-Executive Directors from diverse professional backgrounds with a wealth of experience, skills and expertise to meet the Group's needs.

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Nomination Committee – Selection and Assessment of Directors

A Nomination Committee was established on 26 August 2010 to make recommendations to the Board on suitable candidates for appointment to the Board. The Nomination Committee comprises exclusively of Non-Executive Directors, with a majority of them being Independent. At the date of this Statement, the members are as follows:

- Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail [Chairman];
- Tan Sri Datuk Yong Poh Kon; and
- Dato' Frits van Dijk.

Mr. Peter Vogt sits as the alternate member of the Nomination Committee for Dato' Frits van Dijk.

In 2012, the Nomination Committee met once and the attendance of members is as follows:

No.	Director	Meeting Attendance
1.	Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail	1/1
2.	Tan Sri Datuk Yong Poh Kon	1/1
3.	Dato' Frits van Dijk [or by his alternate]	1/1

The Nomination Committee was formed by the Board with specific terms of reference and empowered by the Board to, amongst others, identify, recommend and nominate suitably qualified candidates in terms of appropriate balance of skills, expertise, attributes and core competencies for the re–election and re-appointment of directors, review the independence of Directors, ensure new Directors go through a proper induction programme and to continuously, collectively and individually, evaluate Directors and senior management on their performance on an on-going basis and recommend training, if necessary. The Committee is also tasked to review succession plans and boardroom diversity, including gender diversity and to develop criteria for the assessment of the Board, Board Committees and individual Directors, including where appropriate, criteria on assessing the independence of candidates' appointment as Independent, Non-Executive Directors and to assess the contribution and performance of members of the Board. Currently, the Company has one female member of the Board and is actively evaluating and assessing the possibility of appointing any female member of the Board.

The Nomination Committee has reviewed and assessed the mix of skills, expertise, composition, size and experience of the Board, including the core-competencies of both Executive and Non-Executive Directors; considered aspects of succession planning and boardroom diversity, including gender diversity; training courses for Directors and other qualities of the Board, including core-competencies which Non-Executive Directors should bring to the Board and the contribution of each individual Director; effectiveness of the Board, as a whole, and the Board Committees as well as the retirement of Directors by rotation who are eligible for re-election or re-appointment.

In 2011, the Committee conducted an assessment on the effectiveness of the Board as a whole, the Committees of the Board and contribution of each individual Director. The assessment considered the qualifications, contribution and performance of Directors on their competency, character, time commitment, integrity and experience in meeting the needs of the Group. The evaluation process involved a peer and self review assessment, where Directors assessed their own and also their fellow Directors' performance and was led by the Chairman of the Nomination Committee and supported by the Company Secretary. The assessment and comments by all Directors were summarised and discussed at the Nomination Committee meeting and reported at a meeting of the Board by the Chairman of the Nomination Committee in the 1st Quarter of 2012. All assessments and evaluations carried out by the Nomination Committee in the discharge of its functions are properly documented.

The Nomination Committee has access to any form of independent professional advice, information and the advice and services of the Company Secretary, if and when required, in carrying out its functions. Directors seeking re-election and re-appointment abstain from all deliberations regarding his/her re-election and re-appointment to the Board and/ or Board Committees. The Nomination Committee shall meet at least once a financial year or more frequently if needed.

From the results of the assessment, including the mix of skills and experience possessed by the Directors, the Board considers the recommendations on the re-election and re-appointment of Directors. The Company re-election process accords with Articles 90.1 and 90.2 of the Company's Articles of Association ["Articles"], which state that one-third of the Directors from the time being appointed shall retire from office and be eligible for re-election, provided always that all Directors shall retire from office at least once in each 3 [three] years but shall be eligible for re-election, to allow the shareholders the opportunity to renew their mandate at the Annual General Meeting. The Directors to retire in every year shall be those who have been longest in office since their last election.

Article 88 of the Company's Articles states that at any point of time, the total number of Directors shall not be less than 2 [two] and not more than 8 [eight] and Nestlé S.A. shall be entitled to appoint up to 4 [four] Directors. The Board, through the assessment and recommendations of the Nomination Committee, is confident and firmly believes that individuals chosen and appointed to the Board are all individuals of high calibre and integrity and can be tasked to discharge their duties and responsibilities independently and effectively. Article 97 of the Articles provides that a Director appointed by the Board from time to time shall hold office only until the next following Annual General Meeting, and shall then be eligible for re-election at the Annual General Meeting. Pursuant to Section 129[6] of the Companies Act 1965, members of the Board who are over 70 years of age may be re-appointed as a Director to serve until the end of the next Annual General Meeting.

The Directors standing for re-election/re-appointment at the forthcoming Annual General Meeting of the Company are as follows:

Name	Designation
Dato' Mohd. Rafik Bin Shah Mohamad	Independent, Non-Executive Director
Tan Sri Datuk [Dr.] Rafiah Binti Salim	Independent, Non-Executive Director
Alois Hofbauer	Managing Director

Dato' Mohd. Rafik Bin Shah Mohamad and Tan Sri Datuk [Dr.] Rafiah Binti Salim, who are both Independent, Non-Executive Directors, are due to retire pursuant to Article 90.1. Alois Hofbauer is due to retire pursuant to Article 97 at the Annual General Meeting. All these Directors will be recommended for re-election/re-appointment by the Board pursuant to the respective Articles. Information of each Director standing for re-election is set out in pages 28, 29 and 31 of the Corporate Report.

Compensation Committee – Directors' Remuneration

The Compensation Committee, established on 26 August 2010, is responsible to make recommendations to the Board on the compensation framework for Directors. The Compensation Committee consists of 3 [three] members, with a majority of Independent Non-Executive Directors. At the date of this Statement, the members are as follows:

- Dato' Mohd. Rafik Bin Shah Mohamad [Chairman]
- Tan Sri Datuk [Dr.] Rafiah Binti Salim
- Dato' Frits van Dijk

Mr. Peter Vogt sits as the alternate member of the Compensation Committee for Dato' Frits van Dijk.

In 2012, the Compensation Committee met twice, and the attendance of members is as follows:

No.	Director	Meeting Attendance
1.	Dato' Mohd. Rafik Bin Shah Mohamad	2/2
2.	Tan Sri Datuk [Dr.] Rafiah Binti Salim	2/2
3.	Dato' Frits van Dijk [or by his alternate]	2/2

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The Compensation Committee was formed by the Board with specific terms of reference. The main responsibilities of the Compensation Committee are to ensure that the compensation, salary and benefits of the employees of the Company are benchmarked with industry standards in light of the Company's performance in the industry. The Salary Plan for the Group for the financial year ended 2013, has been approved by the Compensation Committee in its meeting on 21 February 2013.

The Compensation Committee take cognisant that the compensation packages of Executive Directors and Senior Management of the Group are subject to the global compensation practices of the worldwide Nestlé group of companies. This is as established by the Human Resource function of Nestlé S.A. in Vevey, Switzerland. For the Executive Directors and Senior Management of the Group, corporate and individual performance are rewarded through integrated pay benefits and bonus structure which reflects the competitive nature of the Group's operations in order to contribute to the winning organisation strategy of the Group. Executive Directors who are full time employees of the Group receive no additional compensation for services as a member of the Board.

Non-Executive Directors are paid fixed annual directors' fees as members of the Board and Board Committees. In addition to fixed annual directors' fees, members of the Audit Committee, Nomination Committee and Nomination Committee are paid meeting attendance allowance for each Board Committee meeting attended.

From 2013 onwards, the Compensation Committee will also be entrusted to review and recommend to the Board, the compensation structure of the Board, for both Executive and Non-Executive Directors. The Company's Articles of Association provide that any payment of Directors' fees should be approved at the Annual General Meeting.

Recommendations by the Compensation Committee are reported at a meeting of the Board by the Chairman of the Compensation Committee. All Compensation Committee meeting minutes, including meeting papers, carried out by the Compensation Committee in the discharge of its functions are properly documented.

Directors' remuneration for the financial year ended 31 December 2012 in aggregate, with categorisation into appropriate components, distinguishing between Executive and Non-Executive Directors, is as follows:

2012	Executive Directors*	Non-Executive Directors*
[MYR, in Gross] **		
Salaries	2,102,585	–
Directors Fees ***	–	294,000
Emoluments ****	2,122,711	–
Benefits *****	1,959,183	30,600
Total	**6,184,479**	**324,600**

* Include Directors who have resigned/retired.

** Numbers are provided before tax.

*** Fees paid to Non-Executive Directors.

**** Other emoluments include bonuses, incentives, retirement benefits, provision for leave passage and other allowances.

***** Benefits include rental payment, motor vehicle, club membership, personal expenses and other benefits as Directors.

The number of Directors of the Company whose remuneration band falls within the following successive bands of MYR50,000 is as follows:

Ranges of Remuneration [MYR]	Executive Directors*	Non-Executive Directors*
	[MYR, in Gross]	
1 – 50,000	–	3
50,000 – 100,000	–	3
150,000 – 500,000	1	–
1,000,000 – 2,000,000	2	–
2,800,000 – 2,950,000	1	–
Total	**4**	**6**

* Include directors who have resigned/retired.

Salaries, bonuses and benefits paid to Peter Vogt and Marc Seiler are based on the individual remuneration package of each person as determined by the Human Resource function of Nestlé S.A. and is also based on the individual performance and the profit achieved by the Group.

PRINCIPLE 3 – REINFORCE INDEPENDENCE OF THE BOARD

There is a clear division of responsibilities between the Chairman and the Managing Director to engender accountability and facilitate the division of responsibility, such that no one individual has unfettered powers over decision making. The Chairman, an Independent Non-Executive Director, is responsible for ensuring the adequacy and effectiveness of the Board's governance process and acts as a facilitator at Board meetings to ensure that contributions by Directors are forthcoming on matters being deliberated and that no Board member dominates discussion. The Managing Director, supported by the Management Team, implements the Group's policies and decisions as adopted by the Board, overseeing the operations as well as developing, coordinating and implementing business and corporate strategies.

The Managing Director is responsible for the stewardship of the Group's direction and the day-to-day management of the Group. The Managing Director, together with the Management Team, manages the business of the Group in a manner consistent with the Nestlé Code of Business Conduct and the Nestlé Corporate Business Principles as well as in accordance with any specific plans, instructions and directions of the Board.

In discharging the above-mentioned responsibilities and duties, the Management Team headed by the Managing Director is as follows:

1. Managing Director	2. Executive Director, Finance & Control	3. Executive Director, Technical & Production
4. Executive Director, Sales	5. Executive Director, Supply Chain	6. Executive Director, Human Resource
7. Executive Director, Coffee and Beverages	8. Executive Director, NCE Market Champion	9. Executive Director, Milks
10. Executive Director, Nestlé Professional	11. Executive Director, Legal + Secretarial	12. Executive Director, Group Corporate Affairs

The Board recognises the importance of independence and objectivity in its decision making process. The Directors are professionals of high calibre and integrity and possess of in-depth knowledge and experience of the business to enable them to discharge their duties effectively. The Independent, Non-Executive Directors bring to bear objective and independent views, advice and judgment on interests, not only of the Group, but also of shareholders, employees, customers, suppliers and the many communities in which the Group conducts its business. Independent, Non-Executive Directors are essential for protecting the interests of shareholders and can make significant contributions to the Group's decision making by bringing in the quality of detached impartiality.

The Company does not have term limits for both Executive Directors and Independent, Non-Executive Directors as the Board believes that continued contribution by Directors provides benefit to the Board and the Group as a whole. During the financial year under review, the Board assessed the independence of its Independent, Non-Executive Directors based on criteria set out in the Listing Requirements. The MCCG 2012 provides a limit of a cumulative term of 9 [nine] years on the tenure of an Independent Director. However, an Independent Director may continue to serve the Board upon reaching the 9-year limit subject to the Independent Director's re-designation as a Non-Independent Non-Executive Director. In the event the Board intends to retain the Director as Independent after the latter has served a cumulative term of 9 [nine] years, the Board must justify the decision and seek shareholders' approval at general meeting. In justifying the decision, the Nomination Committee is entrusted to assess the candidate's suitability to continue as an Independent, Non-Executive Director based on the criteria on independence. From 2013 onwards, the Nomination Committee will review and recommend to the Board, a Company charter on the term of tenure of Independent, Non-Executive Directors of the Company, including the tenure of the Chairman of the Company.

Corporate Governance Statement

PRINCIPLE 4 – FOSTER COMMITMENT OF DIRECTORS

The Board ordinarily schedules 4 [four] meetings in a year. Board and Board Committee meetings are scheduled well in advance, i.e. in the 3rd Quarter of the preceding year financial year to facilitate the Directors in planning ahead and to ensure that the Board and Committees meetings are booked in their respective schedules. Additional meetings are convened when urgent and important decisions need to be made between scheduled meetings.

During the financial year under review, 4 [four] Board meetings were held and details of Directors' attendance are as follows:

Director	Meeting Attendance
Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail	4/4
Dato' Mohd. Rafik Bin Shah Mohamad	4/4
Tan Sri Datuk [Dr.] Rafiah Binti Salim	4/4
Tan Sri Datuk Yong Poh Kon	4/4
Dato' Frits van Dijk	2/4
Peter Vogt	4/4
Marc Seiler	4/4
Detlef Krost [as alternate to Dato' Frits van Dijk]	2/2
Adnan Pawanteh [as alternate to Dato' Frits van Dijk]	2/2

Time Commitment

Where any direction or decisions are required expeditiously or urgently from the Board between the regular meetings, special meetings of the Board are convened by the Company Secretary, after consultation with the Chairman. The agenda for the meeting of the Board are set by the Company Secretary in consultation with the Chairman and the Managing Director.

Decisions of the Board are made unanimously or by consensus. Where appropriate, decisions may be taken by way of Directors' Circular Resolutions between scheduled and special meetings. In 2012, 10 resolutions were approved by Directors via Circular Resolutions.

The agenda, the relevant reports and Board papers are furnished to Directors in advance to allow the Directors sufficient time to peruse for effective discussion and decision making during meetings. The Board has a regular schedule of matters which are typically on the agenda and reviewed during the course of the year namely, the Company's Business Plan; Managing Director's Presentation and Quarterly Reports; the Quarterly Unaudited Consolidated Results; Recommendations of the various Board Committees; Announcements to Bursa; Company's Creating Shared Value Activities; Company's Audited Financial Statements; Company's Annual Report [which includes the Statement on Corporate Governance, Internal Control Statement, an Audit Committee Report and Creating Shared Value Statement.] Members of the Management Team or external advisors are invited, as and when required, to attend the Board and/or Committee meetings to advise and furnish the members of the Board and/or Committees with information and clarification relating to the items on the agenda for effective discussion and decision making.

All pertinent issues discussed at Board meetings in arriving at the decisions and conclusions are properly recorded by the Company Secretary by way of minutes of meetings. It is the policy of the Company for Directors to devote sufficient time and efforts to carry out their responsibilities. The Board obtains this commitment from Directors at the time of appointment. It is also the Board's policy for Directors to notify the Chairman before accepting any new directorship notwithstanding that the Listing Requirements allow a Director to sit on the boards of 5 listed issuers. Such notification is expected to include an indication of time that will be spent on the new appointment.

Directors' Training

The Board is mindful of the importance for its members to undergo continuous training and through its Nomination Committee continues to evaluate and determine the training needs of its members to ensure continuing education is made available to Directors in order for them to enhance their business acumen and professionalism in discharging their duties to the Group. Any Director appointed to the Board is required to complete the MAP within 4 [four] months from the date of appointment.

Pursuant to paragraph 15.08[2] and Appendix 9C [Part A, Paragraph 28] of the Listing Requirements, the Directors have during the financial year ended 31 December 2012, attended development and training programmes in areas of leadership, corporate governance, finance, regulatory developments, corporate social responsibility, information security and business intelligence. The Company also provided internal briefings to the Directors on key corporate governance developments and salient changes on the Listing Requirements, laws and regulations.

In addition, as part of the Directors' continuous education programme, all Directors are, from time to time, provided with hard copies of reading materials pertaining to the latest developments in areas relating to the Directors' roles and responsibilities.

The External Auditors also briefed the Board members on any changes to the Malaysian Financial Reporting Standards that affect the Group's financial statements during the year. The Directors' are also encouraged to attend appropriate external trainings on subject matter that aids the Directors in the discharge of their duties as Directors, at the Company's expense.

PRINCIPLE 5 – UPHOLD INTEGRITY IN FINANCIAL REPORTING BY COMPANY

The Board aims to provide and present a clear, balanced and comprehensive assessment of the Group's financial performance and prospects at the end of the financial year, primarily through the annual financial statements, quarterly and half yearly announcement of results to shareholders, as well as the Message to Shareholders and review of the Group's operations in the Annual Report.

The Board is responsible for ensuring that the financial statements give a true and fair view of the state of affairs of the Group and the Company as at the end of the reporting period and of their results and cash flows for the period then ended. In preparing the financial statements, the Directors ensure that accounting standards approved by the Malaysian Accounting Standards Board [MASB] in Malaysia and the provisions of the Companies Act, 1965 are complied with and reasonable and prudent judgments and estimates have been made. The Directors' overall responsibilities also include taking such steps as are reasonably open to them to safeguard the assets of the Group and for the implementation and continued operation of adequate accounting and internal control systems for the prevention of fraud and other irregularities.

The Board is satisfied that it has met its obligation to present a balanced and understandable assessment of the Group's position and prospects in the Directors' Report and the Financial Statements set out in this Annual Report.

To assist in the discharge its duties on financial reporting, the Board has established an Audit Committee, comprising wholly Independent, Non-Executive Directors, with Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail as the Chairman of the Audit Committee. The composition of the Audit Committee, including its roles and responsibilities are set out in this Annual Report. One of the key responsibilities of the Audit Committee is to ensure that the financial statements of the Group and Company comply with applicable financial reporting standards in Malaysia. Such financial statements comprise the quarterly financial report announced to Bursa and the annual statutory financial statements.

The Board's obligation to establish formal and transparent arrangements in considering how it should apply financial reporting and internal controls, and maintaining an appropriate relationship with the Group's external auditors is met through the Audit Committee. The Audit Committee discusses with the external auditors the nature and scope of the audit and reporting obligations before audit commences. The Audit Committee ensures that the Management provides timely response on any material queries raised by the external auditors, in respect of the accounting records, financial accounts or system of controls. The Audit Committee is empowered by the Board to review any matters concerning the appointment and re-appointment, resignations or dismissals of external auditors and review and evaluate factors relating to the independence of the external auditors. The Audit Committee works closely with the external auditors in establishing procedures in assessing the suitability and independence of the external auditors, in confirming that they are, and have been, independent throughout the conduct of the audit engagement with the Group in accordance with the independence criteria set out by the International Federation of Accountants and the Malaysian Institute of Accountants. The terms of engagement for services provided by the external auditors are reviewed by the Audit Committee prior to submission to the Board for approval.

Corporate Governance Statement

PRINCIPLE 6 – RECOGNISE AND MANAGE RISKS OF THE GROUP

Recognising the importance of risk management and internal controls, the Board has established a structured risk management framework to identify, evaluate, control, monitor and report the principal business risks faced by the Group on an on-going basis. The key features of the risk management framework are set out in the Statement on Risk Management and Internal Control as stated in this Annual Report.

The Board has established internal control policies and procedures and monitors to ensure that such internal control system is implemented and effectively carried out by the Management Team. The Group has in place an Information Technology Policy that outlines the processes that should be followed to create policies, best practices, standards and the use of the supporting information technologies. The Group is mindful of the legal implications if technology systems or information are misused in a manner which may be found to breach laws and regulations.

Guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, the Board performs reviews on an annual basis covering not only financial, but operational and compliance controls and risk management systems, in all material aspects. The Board is provided with reasonable assurance from the various reports submitted by Management and the Audit Committee on risk management and internal control system.

Details on the Statement on Risk Management and Internal Control and Internal Audit Function are furnished in pages 18 to 25 of the Corporate Governance and Financial Report.

PRINCIPLE 7 – ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

An essential aspect of an active and constructive communication policy is the promptness in disseminating information to shareholders and investors. The Board is aware of the need to establish corporate disclosure policies and procedures to enable comprehensive, accurate and timely disclosures pertaining to the Company and its subsidiaries to regulators, shareholders and stakeholders.

For the financial year under review, the corporate disclosure policies and procedures which have been adopted and implemented in the Company are as follows:

i] Timely release of quarterly financial results

The Group recognises the importance of prompt and timely dissemination of information to shareholders and investors, in order for these stakeholders to be able to make informed investment decisions. The Board is of the view that information that is not released in a timely manner, albeit comprehensive and accurate, would be less relevant for such investment purposes. As such, the Group accords a high priority in ensuring that information is made available and disseminated as early as possible. The prompt and timely release of financial results on a quarterly basis, as follows, enables shareholders to have an overview of the Group's performance and operations and make informed investment decisions:

2012 Quarterly Results	Date of Issue/Release	Bursa Securities Deadline	Number of Days after end of Quarter
1st Quarter	25.04.2012	31.05.2012	25
2nd Quarter	30.08.2012	31.08.2012	61
3rd Quarter	01.11.2012	30.11.2012	32
4th Quarter	21.02.2013	28.02.2013	52

ii] Investors Relations

The Company holds separate quarterly briefings for fund managers, institutional investors and investment analysts as well as the media after each quarter's announcement of results to Bursa.

The quarterly briefings are intended not only to promote the dissemination of the financial results of the Company to investors, shareholders and media but also to keep the investing public and other stakeholders updated on the progress and development of the Group's business. The quarterly briefings are conducted by the Executive Director of Finance & Control and in the presence of the Company Secretary.

In year 2012, the Company held 4 [four] quarterly briefings for fund managers, institutional investors and investment analysts.

iii] Company website and authorized spokesperson

In addition to providing comprehensive insights into the Group's financial performance, the Board also recognises the importance of communicating the Group's business strategies, updates on the progress of the Group's current business initiatives as well as its financial performance during these briefings. In order to disseminate timely information across all external communications, from 2013 onwards, the Company shall make available the Quarterly Reports on the Company's corporate website, www.nestle.com.my, at which shareholders can access information under the 'Investor Relations' tab.

With the progressive interest and heightened investor awareness on the greater need for accountability and transparency, the Board places great importance in maintaining active dialogue and effective communication with shareholders and investors to enable them to make informed investment decisions. As part of the Company's commitment towards this objective, experienced Senior Management personnel are directly involved in the Company's investor relations activities. With the active involvement of the Senior Management personnel, the investment community is assured of views and information on the Group that is appropriate, accurate and timely. The details of the authorized Senior Management personnel responsible for Investor Relations are as follows:

Name	:	Marc Seiler
Designation	:	Executive Director, Finance & Control
Age	:	48 years
Address	:	Nestlé [Malaysia] Berhad [110925-W] 22-1, 22nd Floor Menara Surian No. 1, Jalan PJU 7/3 Mutiara Damansara 47810 Petaling Jaya, Selangor Darul Ehsan
Tel No.	:	03 - 7965 6107
E-mail	:	InvestorRelations.Malaysia@MY.nestle.com

Further details of his qualification and relevant experience are found in the Profile of Directors on page 31 of the Corporate Report.

It has been the Company's practice to respond to shareholders letters, telephone and e-mail enquiries. Each letter or e-mail received, if it requires the attention of the Board, is reviewed by the Legal and Secretarial Department before the same is forwarded to the Board for its consideration.

While the Company endeavours to provide as much information as possible to its shareholders and stakeholders, the Company is mindful of the legal and regulatory framework governing the release of material and price sensitive information.

iv] Related party transactions and material contracts

An internal compliance framework exists to ensure the Company meets its obligations under the Listing Requirements, including obligations relating to related party transactions and recurrent related party transactions. The Board, through its Audit Committee, reviews all related party transactions involved. A director who has an interest in a transaction must abstain from deliberating and voting on the relevant resolution, in respect of such transaction at the meeting of the Board and at the Annual General Meeting convened to consider the said matter.

Corporate Governance Statement

There are procedures established by the Group to ensure that all related party transactions are undertaken on an arm's length basis and on normal commercial terms, consistent with the Group's usual business practices and policies, which are generally not more favourable than those generally available to the public and other suppliers and are not detrimental to minority shareholders.

Salient features of the procedures relating to the governance of related party transactions are summarised as follows:

- a list of related parties of the Group is circulated to the Directors and Management of the Company and its subsidiaries to notify that all related party transactions are required to be undertaken on an arm's length basis and on normal commercial terms not more favourable than those generally available to the public and other suppliers and are not detrimental to the minority shareholders;
- all related party transactions are reported to the Audit Committee. Any member of the Audit Committee, where deemed fit, may request for additional information pertaining to the transactions, including advice from independent sources or advisers; and
- all recurrent related party transactions which are entered into pursuant to the shareholders' mandate for recurrent related party transactions are recorded by the Company in a register or records maintained by the Company Secretary.

The Recurrent Related Party Transactions entered into by the Company with its related parties in year 2012 are as follows:

- purchases of raw materials, semi-finished and finished food products from Nestlé affiliated companies which amounted to approximately RM312 million;
- payment of royalties for the use of trademarks for the sale of food products to Nestlé affiliated companies amounting to approximately RM150 million;
- payment for information technology shared services for use and maintenance of information technology services to Nestlé affiliated companies which amounted to RM20 million;
- sale of food products to Nestlé affiliated companies amounting to approximately RM740 million;
- payment for information technology shared services and agency services of approximately RM1.6 million; and
- payment for information technology shared services of approximately RM1.4 million.

For the financial year ended 31 December 2012, there were no material contracts entered into by the Group [not being contracts entered into in the ordinary course of business], involving directors and substantial shareholders, except for material contracts in respect of the recurrent related party transactions of a revenue or trading nature.

PRINCIPLE 8 – STRENGTHEN RELATIONSHIP BETWEEN THE COMPANY AND ITS SHAREHOLDERS

The Board believes that they are not only accountable to shareholders but also responsible for managing a successful and productive relationship with the Company's stakeholders.

Annual Report and shareholder participation at general meeting

The Company recognises the importance of maintaining transparency and accountability to its shareholders. The Board ensures that all the Company's shareholders are treated equitably and the rights of all investors, including minority shareholders, are protected. The Board provides its shareholders and investors with information on its business, financials and other key activities in the Annual Report of the Company, which contents are continuously enhanced to take into account the developments, amongst others, in corporate governance.

The Board aims to provide and present a clear and comprehensive assessment of disclosures in the Annual Report to shareholders. In disclosing information in the Annual Report, the Board is guided by the principles set out in the Listing Requirements and the Nestlé Code of Business Conduct.

The Company sends out the Notice of the Annual General Meeting and related circular to shareholders at least 21 days before the meeting as required under the Listing Requirements, in order to facilitate full understanding and evaluation of the issues involved. Where special business items appear in the Notice of the Annual General Meeting, a full explanation is provided to shareholders on the effect of the proposed resolution emanating from the special business item. The Annual General Meeting is the principal opportunity for the Board to meet shareholders and for the Chairman to provide an overview of the Company's progress and receive questions from shareholders.

At the Annual General Meeting, shareholders actively participate in discussing the resolutions proposed or on future developments of the Group's operations in general. The Board, the Management Team and the Company's external auditors, are present to answer questions raised and provide clarification as required by shareholders. All the resolutions set out in the Notice of the Annual General Meeting are put to vote by show of hands. From 2013 onwards, the Company shall endeavour, wherever possible, to put to vote of resolutions at the Annual General Meeting by poll. A press conference is held immediately after the Annual General Meeting where the Managing Director and selected members of the Management Team provides updates to the media representatives of the resolutions passed and answer questions on matters relating to the Group. The outcome of the Annual General Meeting is announced to Bursa on the same meeting day.

At every Annual General Meeting, helpdesks are set up as a contact point for shareholders. The Company's primary contact with shareholders is through the Chairman, Managing Director, Executive Director of Finance & Control and the Company Secretary. All shareholders' queries are received by the Company Secretary. The Company Secretary provides feedback and responses to the shareholders' queries, save for sensitive information, which may not be privy to the general public.

The 2012 Annual General Meeting was held on 26 April 2012 at the Sime Darby Convention Centre, Kuala Lumpur. An increased number of shareholders were observed in comparison to the turn-up in the preceding year, indicating a higher level of engagement and participation by shareholders.

Communication and engagement with shareholders

The Company recognises the importance of being transparent and accountable to its stakeholders and, as such, maintains an active and constructive communication policy that enables the Board and Management to communicate effectively with investors, financial community and the public generally.

The various channels of communications are through meetings with institutional shareholders and investment communities, quarterly announcements on financial results to Bursa, relevant announcements and circulars, when necessary, the Annual and Extraordinary General Meetings and through the Company's corporate website at www.nestle.com.my.,from which shareholders and prospective investors can access corporate information, annual reports, press releases, financial information, company announcements and share prices of the Company. To maintain a high level of transparency and to effectively address any issues or concerns, the Group has a dedicated electronic mail, InvestorRelations.Malaysia@MY.nestle.com, to which stakeholders can direct their queries or concerns.

Statement by the Board on compliance

The Board has deliberated, reviewed and approved this Statement.

The Board considers and is satisfied that the Company has fulfilled its obligations under the Nestlé Code of Business Conduct, MCCG 2012, the relevant chapters of the Listing Requirements on corporate governance and all applicable laws and regulations throughout the financial year ended 31 December 2012.

This Statement was presented and approved at the meeting of the Board on 21 February 2013.

Statement on Risk Management and Internal Control

INTRODUCTION

The Board of Directors of Nestlé [Malaysia] Berhad [“Board”] is committed towards maintaining a sound system of risk management and internal control and is pleased to provide the following Statement on Risk Management and Internal Control [the “Statement”] which outlines the scope and nature of risk management and internal controls of the Group for the financial year ended 31 December 2012.

For the purpose of disclosure, this Statement is guided by the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers pursuant to Paragraph 15.26[b] of the Listing Requirements of Bursa Malaysia Securities Berhad.

BOARD RESPONSIBILITY

The Board is committed and acknowledges its overall responsibility to maintain the Group’s system of internal control and risk management as well as for reviewing its adequacy, integrity and effectiveness to safeguard shareholders’ investments and the Group’s assets.

The Board recognises that a sound system of risk management and internal control is an integral part of good corporate governance. The Board and the Management Team are responsible and accountable for the establishment of internal controls for the Group. The Board has an on-going process for identifying, evaluating and managing significant risks faced by the Group. The Board has delegated the responsibility of monitoring the internal control and risk management systems to the Management Team. The risk management and internal control systems and processes are subjected to regular evaluations on their adequacy and effectiveness by the Management Team and are updated from time to time, including mitigating measures taken by the Management Team, via the Audit Committee to address areas of key risks as identified. This process has been in place for the financial year under review and up to the date of approval of this Statement for inclusion in the Annual Report of the Company.

The system of risk management and internal control covers not only financial controls but operational, risk and compliance controls as well. These systems are designed to manage, rather than eliminate, the risk of failure arising from non-achievement of the Group’s policies, goals and objectives. Such systems provide reasonable, rather than absolute, assurance against material misstatement or loss.

The Audit Committee assists the Board to review the adequacy and effectiveness of the systems of risk management and internal control in the Group and ensures that appropriate methods and procedures are used to obtain the level of assurance required by the Board.

RISK MANAGEMENT FRAMEWORK

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

Risk management is firmly embedded in the Group’s key processes through its Risk Management Framework, in line with Principle 6 and Recommendation 6.1 of the Malaysian Code on Corporate Governance [“MCCG 2012”]. Risk management practices are inculcated and entrenched in the activities of the Group’s, which requires, amongst others, establishing risk tolerance thresholds to actively identify, assess and monitor key business risks faced by the Group.

Risk Management principles, policies, procedures and practices are periodically reviewed, with the results thereof communicated to the Board through the Audit Committee to ensure their continuing relevance and compliance with current/applicable laws and regulations.

NESTLÉ MALAYSIA AUDIT FUNCTION

The Nestlé Malaysia Audit Department is responsible for reviewing all policies and processes of the Group and its relationship with third parties. It provides the Directors with an independent opinion on the processes, risk exposures and systems of internal controls of the Group. The responsibilities of the Nestlé Malaysia Audit Department include:

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

The Nestlé Malaysia Audit Department identifies its scope of audit based on risk assessments performed on [a] the inherent risk of the business unit/departments; and [b] the complexity of the end to end processes within each business unit/department.

The results of the internal audits are reported on a quarterly basis to the Audit Committee and the report of the Audit Committee is a permanent agenda in the meeting of the Board. The Management Team response on each internal audit recommendation and action plans therein, are regularly reviewed and followed up by the Nestlé Malaysia Audit Department and reported to the Audit Committee. A matrix which covers the overall audit ratings, nature of work and scope, and audit issues and its priorities have been developed as a template to guide the conduct of the follow up audit. For the year ended 31 December 2012, the Nestlé Malaysia Audit Department conducted 14 [fourteen] internal audits across corporate function, warehouse, factories and business units. In addition, 12 [twelve] ad hoc reviews were conducted. Observations arising from the internal audit are presented, together with Management's response and proposed action plans, to the Audit Committee for its review and approval.

Statement on Risk Management and Internal Control

Furthermore, the Nestlé S.A. Audit Department, the internal auditing arm of the holding company Nestlé S.A., is also responsible for assessing the effectiveness of internal control for the Global Nestlé Group. The Nestlé S.A. Audit Department conducts reviews of processes, systems and business excellence on selected business areas/ units based on a Group-wide Risk Assessment Methodology. The annual internal audit plan and results of the Nestlé S.A. Audit Department are regularly reported to Zone Management and the Audit Committee of Nestlé S.A. For the year ended 31 December 2012, based on the approved annual audit plan and the risk assessment, none were performed by the Nestlé S.A. Audit Department.

The annual audit plan for the financial year ended 31 December 2012 was presented and approved by the Board in the last quarter of year 2011.

OTHER RISK AND CONTROL PROCESSES

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

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

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

Financial information, key performance and risk indicators are also reported on a quarterly basis to the Board. In addition to the above, the Group leverages the Nestlé Self Assessment Tool ["NSAT"] for all business units and corporate functions, which were rolled out in 2008. NSAT, a globally driven initiative by Nestlé S.A. in response to the changes in the Swiss Code of Obligations for companies listed on the Swiss exchange, is an internally developed Control Self Assessment Solution which is used to measure each unit's compliance with the minimum internal controls determined by the Group. The objective of control self assessment is to help each unit better identify their own internal control gaps and to develop specific, measurable, and timely action plans to address these gaps.
These results are monitored by the Management Team and reported to the Board through the Audit Committee, as well as to Nestlé S.A. by Nestlé S.A. Audit Department. NSAT also acts as a repository for best in class internal controls which may be shared with other Nestlé units across the world.

For the year ended 31 December 2012, based on the completed NSAT for the Group, there were no major gaps in respect to the minimum internal controls as determined by the Group. Improvement opportunities where identified, were addressed with action plans for implementation against expected completion dates and persons responsible. The Nestlé Malaysia Audit Department performs the follow-up audit to assess and report on the status of these action plans [i.e. implemented, in progress, or pending] on a quarterly basis to the Board through the Audit Committee.

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

The Board has received assurance from the Managing Director and Executive Director, Finance & Control, that the Group's risk management and internal control systems are operating adequately and effectively, in all material aspects, during the financial year under review. Taking into consideration the assurance from the Management Team and input from the relevant assurance providers, the Board is of the view that the system of risk management and internal control is satisfactory and is adequate to safeguard shareholders' investments, customers' interest and Group assets. The Group will continue to take measures to strengthen the internal control and risk management environment.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in the Recommended Practice Guide ["RPG"] 5 issued by the Malaysian Institute of Acountants ["MIA"] for inclusion in the annual report of the Group for the year ended 31 December 2012, and reported to the Board that nothing has come to their attention that cause them to believe that the statement is inconsistent with their understanding of the process the Board has adopted in the review of the adequacy and effectiveness of risk management and internal controls within the Group. RPG 5 does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Directors and Management thereon.

Audit Committee Report

SIZE AND COMPOSITION

Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail
Independent, Non-Executive Director
Chairman
[Chartered Accountant of the Australian Society of Certified Practising Accountants [CPA];
Chartered Accountant of the Malaysian Institute of Accountants]

Dato' Mohd. Rafik Bin Shah Mohamad
Independent, Non-Executive Director
Member
[Chartered Accountant of the Association of Chartered Certified Accountants, United Kingdom;
Chartered Accountant of the Malaysian Institute of Accountants]

Tan Sri Datuk [Dr.] Rafiah Binti Salim
Independent, Non-Executive Director
Member

The Audit Committee comprises of 3 [three] members who are all Independent, Non-Executive Directors. The Chairman of the Audit Committee, Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail, and another member, Dato' Mohd. Rafik Bin Shah Mohamad, are both qualified Chartered Accountants, being members of the Malaysian Institute of Accountants. All members of the Audit Committee are financially literate having had extensive exposure in the corporate world.

A quorum, established by the presence of the Chairman, and at least 1 [one] other member, has always been met for the meetings of the Audit Committee.

The Audit Committee held 4 [four] meetings in the financial year ended 31 December 2012 and the attendance of members is as follows:

No.	Director	Meeting Attendance
1.	Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail	4/4
2.	Dato' Mohd. Rafik Bin Shah Mohamad	4/4
3.	Tan Sri Datuk [Dr.] Rafiah Binti Salim	4/4

Upon invitation by the Audit Committee, the Executive Director, Finance & Control, representatives of the external auditors, the Head, Nestlé Market Audit and the Head, Accounting & Consolidation/ Insurance & Pension have attended all the meetings. When there is a need by the Audit Committee, the relevant members of the Management Team will also be invited to attend the meetings.

The Audit Committee also has the right to meet the external and/or the internal auditors without the presence of the Executive Directors or other Management Team.

DUTIES AND RESPONSIBILITIES

The Audit Committee acts as a committee of the Board of Directors and was established on 2 March 1994 under the Terms of Reference as stated in this Annual Report.

SUMMARY OF ACTIVITIES DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

Activities with regards to external audit:

- review of external audit scope and audit plans based on the external auditors' presentation of audit strategy and plan;
- review of external audit results, audit reports, management letter and the response from the management; and
- review and evaluate factors relating to the independence of the external auditors.

The Audit Committee worked closely with the external auditors in establishing procedures in assessing the suitability and independence of the external auditors, in confirming that they are, and have been, independent throughout the conduct of the audit engagement with the Group in accordance with the independence criteria set out by the International Federation of Accountants and the Malaysian Institute of Accountants.

Activities with regards to internal audit:

- review of internal audit's resource requirements, scope, adequacy and function;
- review of internal audit's plan and programmes;
- review of internal audit reports, recommendations and management responses. Improvement actions in the areas of internal control, systems and efficiency enhancements suggested by the internal auditors were discussed together with the Management Team in a separate forum;
- review of implementation of these recommendations through follow up audit reports;
- suggested additional improvement opportunities in the areas of internal control, systems and efficiency improvement; and
- review and take cognisance of the movements of internal audit staff member.

Activities with regards to financial statements:

- review of annual report and the audited financial statements of the Company prior to submission to the directors for their perusal and approval. This was to ensure compliance of the financial statements with the provisions of the Companies Act 1965 and the applicable approved accounting standards as per the Malaysian Accounting Standards Board ["MASB"];
- review of the Group's compliance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, MASB and other relevant legal and regulatory requirements with regards to the quarterly and year-end financial statements; and
- review of the unaudited financial results announcements before recommending them for Board approval.

Other activities:

- review of related party transactions, ordinary and extraordinary dividend payments; and
- review of compliance with the Malaysian Code for Corporate Governance 2012.

Nestlé Malaysia Audit function:

The Nestlé Malaysia Audit function in the Group is aligned with the Malaysian Code of Corporate Governance 2012. The Nestlé Malaysia Audit is administered as a department within the Finance & Control function in the Group which reports directly to the Audit Committee and functionally to the Nestlé S.A. Audit in Vevey, Switzerland, thus ensuring its independence. Its main role is to undertake independent and systematic reviews of the processes and guidelines of the Group and to report on their application and compliance.

The individual assessments are objectively reported to the management and to the Audit Committee.

The Nestlé Malaysia Audit Department is headed by Anca Vetisan, 43 years of age, who has served within the worldwide Nestlé group of Companies for approximately 17 [seventeen] years. She was previously attached to the Finance and Control Division of Nestlé Romania. Anca Vetisan is a graduate of the Technical University in Romania, with a Bachelor Degree in Engineering.

The costs incurred for the internal audit function for the financial year ended 31 December 2012 is MYR1,524,000.

Terms of Reference of the Audit Committee

OBJECTIVES

The Audit Committee is an independent committee which assists the Board of Directors ["Board"] in the discharge of its responsibilities for corporate governance, corporate control and financial reporting.

The Audit Committee acts on behalf of the Board to ensure that:

- the Nestlé Malaysia Audit function is operating effectively and in accordance with the Standards for the Professional Practice of Internal Auditing;
- adequate attention is paid to the effectiveness, efficiency and economy of the Group's operations;
- the quarterly results and year-end financial statements are reviewed prior to the approval by the Board;
- adequate systems of internal control are in operation so as to produce accurate and meaningful management information; and
- appropriate and timely action is taken by the relevant managers to rectify the major areas of concern.

The Audit Committee reports to the Board at every quarter, on matters falling within the Audit Committee's terms of reference.

DUTIES AND RESPONSIBILITIES

The Audit Committee is responsible in particular for:

Risk and Control

- evaluate if adequate risk assessment processes and measures are put in place to minimise any risk exposures, including fraud;
- review and evaluate, with the external and internal auditors, management procedures, which are designed to provide assurance of compliance with laws, regulations, policies and codes of practice or conduct;
- monitor systems and procedures, with the external and internal auditors, which are designed to provide a satisfactory and effective level of internal control, asset protection and management information; and
- monitor the Group's operations via appropriate internal audit reviews, to ascertain if adequate attention is paid to attributes of efficiency, effectiveness and economy.

Internal Audit

- review the internal audit reports of major audits which were undertaken;
- review the extent to which internal audit recommendations are implemented and the timeliness of responses received;
- review internal audit performance and effectiveness to ensure consistency with the approved plans, the Internal Audit Charter, and relevant professional standards; and
- review the adequacy of the scope, functions, competency and resources of the internal audit function.

External Audit

- review Management's responses to the external auditor's interim reports, annual report and Management Letters;
- monitor developments in the external audit field and standards issued by professional bodies and other regulatory authorities;
- oversee external audit arrangements in place at the various controlled entities or subsidiaries;

- develop and review for recommendation to the Board, the Company's policy in relation to the provision of non-audit services by the external auditors, which takes into consideration:
  - whether the skills and experience of the audit firm make it a suitable service provider for non-audit services;
  - whether there are safeguards to eliminate or reduce to an acceptable level any threat to the objectivity or independence of the external auditor in the conduct of external audit resulting from non-audit services provided by the external auditor; and
  - the nature of the non-audit services and the fee level or threshold permitted in relation to the audit fees payable to the external auditor and/or its network firms for each financial year; and
- review the non-audit services provided by the external audit and/or its network firms to the Group for the financial year, including the nature of the non-audit services, fee level or threshold of the non-audit services, individually and in aggregate, relative to the external audit fees and safeguards deployed to eliminate or reduce the threat to objectivity and independence in the conduct of the external audit resulting from the non-audit services provided.

REPORTING

- review the quarterly and annual final draft of the financial statements [prior to the meeting of Board to approve the financial statements], receiving explanations for significant variations from the prior year and from budget, and referring issues to the Board, as and when necessary;
- monitor compliance with statutory requirements for financial reporting, with focus on significant changes in accounting policies and practices, together with significant adjustments recommended by external audit; and
- review compliance with all related party disclosures required by the Accounting Standards.

OTHERS

- review as and when necessary, any matters arising from the Group's financial operations; and
- commission such investigations or reviews relevant to its role as it sees fit.

AUTHORITY

The Audit Committee, in the course of discharging its duties, is authorised to:

- require any officer of the Group or any subsidiary to supply such information and explanations as may be needed;
- have discussions with line managers and employees of the Group and subsidiaries at any reasonable time;
- draw assistance from qualified external party to advise on issues, where the members require expert input;
- convene meetings with external auditors, the internal auditors or both, excluding the attendance of the other directors and employees of the Group, whenever deemed necessary; and
- pre-approved non-audit services provided by the external auditors and/ or its network firms.

Financial Calendar

Results

Interim	- announced	30 August 2012
Final	- announced	21 February 2013

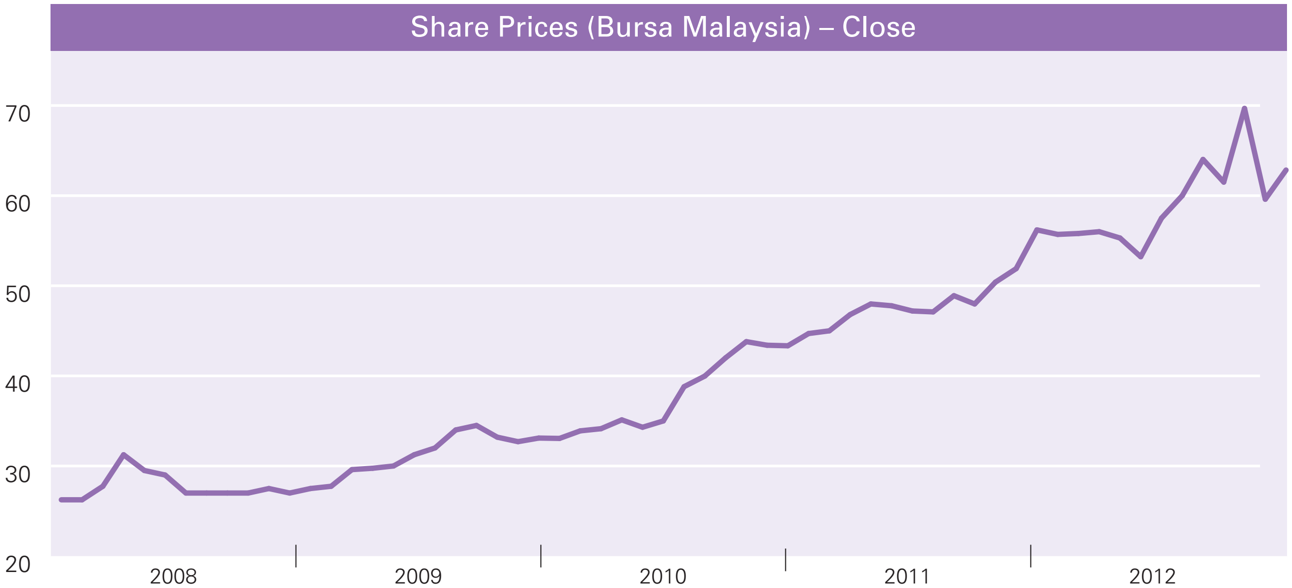
Dividends

Interim	- record date	20 September 2012
	- paid	4 October 2012
Final	- record date	23 May 2013
	- payable	13 June 2013

Annual General Meeting	2 May 2013

Share Performance

	Calendar Year				
	2012	2011	2010	2009	2008
During the year					
Highest - RM	**70.20**	57.00	45.00	35.68	32.00
Lowest - RM	**51.50**	43.34	33.00	27.00	25.50



Based on month-end closing price

Group Financial Highlights

		2012 (RM'000)	2011 (RM'000)	+ / (-)
TURNOVER		**4,556,423**	4,246,744	7.3%
EARNINGS / CASH FLOW				
Profit before tax		**637,668**	558,809	14.1%
% of turnover		**14.0%**	13.2%	
Profit after tax and minority interest		**505,352**	427,128	18.3%
% of turnover		**11.1%**	10.1%	
Dividends paid & proposed (net)		**492,450**	422,100	16.7%
Depreciation of fixed assets		**101,601**	101,894	
Cash flow (net profit + depreciation + amortisation)		**606,953**	528,871	
Capital expenditure		**158,442**	93,015	
Shareholders' funds		**751,206**	652,719	
PERSONNEL	(no.)	**6,159**	5,731	
FACTORIES	(no.)	**7**	7	
PER SHARE				
Market price [3]	(RM)	**62.84**	56.20	
Earnings [1]	(sen)	**215.50**	182.14	
Price earnings ratio		**29.16**	30.86	
Dividend (net)	(sen)	**210.00**	180.00	
Dividend yield	(%)	**3.3**	3.2	
Dividend cover [1]	(no.)	**1.0**	1.0	
Shareholders' funds	(RM)	**3.20**	2.78	
Net tangible assets [2]	(RM)	**2.94**	2.52	

As from 1 January 2012, certain allowances and discounts are disclosed as a deduction of sales in conformity with Nestlé S.A. Group policy and with the practice generally applied by consumer goods companies. For comparative purpose, 2011 is adjusted to reflect the new turnover definition.

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 transacted price of the shares quoted on the last trading day of December.

5 Years' Statistics

for the year ended 31 December 2012

		2012 RM'000	2011 RM'000	2010 RM'000	2009 RM'000	2008 RM'000
TURNOVER		**4,556,423**	4,246,744	4,026,319	3,744,233	3,877,068
EARNINGS / CASH FLOW						
Profit before tax		**637,668**	558,809	465,744	440,261	441,353
% of turnover		**14.0%**	13.2%	11.6%	11.8%	11.4%
Profit after tax and minority interest		**505,352**	427,128	391,398	351,793	340,887
% of turnover		**11.1%**	10.1%	9.7%	9.4%	8.8%
Dividends paid & proposed (net)		**492,450**	422,100	386,925	351,750	448,341
Depreciation of fixed assets		**101,601**	101,894	101,112	87,952	75,159
Cash flow (net profit + depreciation + amortisation)		**606,953**	528,871	492,510	439,745	416,302
% of turnover		**13.3%**	12.5%	12.2%	11.7%	10.7%
Capital expenditure		**158,442**	93,015	143,915	257,131	188,055
EMPLOYMENT OF ASSETS						
Fixed assets (net)		**945,812**	889,741	897,505	860,253	686,459
Associated company		**3,217**	3,210	3,189	3,467	3,242
Intangible assets		**61,024**	61,024	61,024	61,024	61,024
Deferred tax assets		**32,412**	18,460	10,441	7,379	3,980
Trade and other receivables		**22,001**	23,802	22,653	22,923	23,814
Net current (liabilities)/assets		**(88,689)**	100,324	62,954	58,892	(148,575)
Total		**975,777**	1,096,561	1,057,766	1,013,938	629,944
FINANCED BY						
Share capital		**234,500**	234,500	234,500	234,500	234,500
Reserves		**516,706**	418,219	378,836	332,679	281,255
Total shareholders' funds		**751,206**	652,719	613,336	567,179	515,755
Deferred taxation		**74,858**	63,815	75,595	70,309	56,801
Retirement benefit liabilities		**54,546**	42,316	42,537	48,411	54,698
Borrowings		**95,167**	337,711	326,298	328,039	2,690
Total		**975,777**	1,096,561	1,057,766	1,013,938	629,944
PER SHARE						
Market price [3]	(RM)	**62.84**	56.20	43.34	33.10	27.00
Earnings [1]	(sen)	**215.50**	182.14	166.91	150.02	145.37
Price earnings ratio		**29.16**	30.86	25.97	22.06	18.57
Dividend (net)	(sen)	**210.00**	180.00	165.00	150.00	191.19
Dividend yield	(%)	**3.3**	3.2	3.8	4.5	7.1
Dividend cover [1]	(no.)	**1.0**	1.0	1.0	1.0	0.8
Shareholders' funds	(RM)	**3.20**	2.78	2.62	2.42	2.20
Net tangible assets [2]	(RM)	**2.94**	2.52	2.36	2.16	1.94
PERSONNEL	(no.)	**6,159**	5,731	5,284	5,442	5,293
FACTORIES	(no.)	**7**	7	7	7	7

As from 1 January 2012, certain allowances and discounts are disclosed as a deduction of sales in conformity with Nestlé S.A. Group policy and with the practice generally applied by consumer goods companies. For comparative purpose, 2011 is adjusted to reflect the new turnover definition

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.

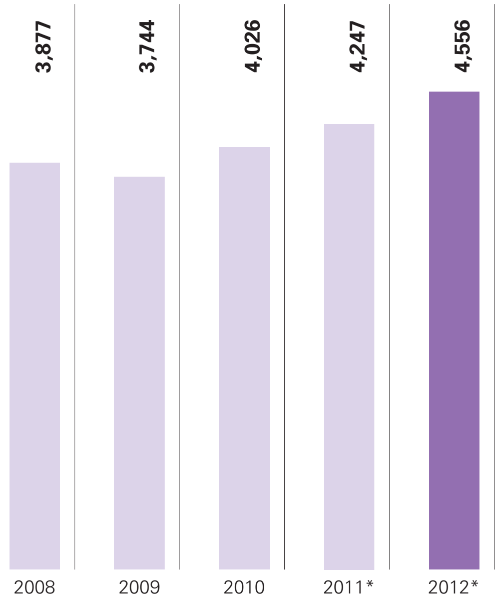
Financial Charts

Notes :

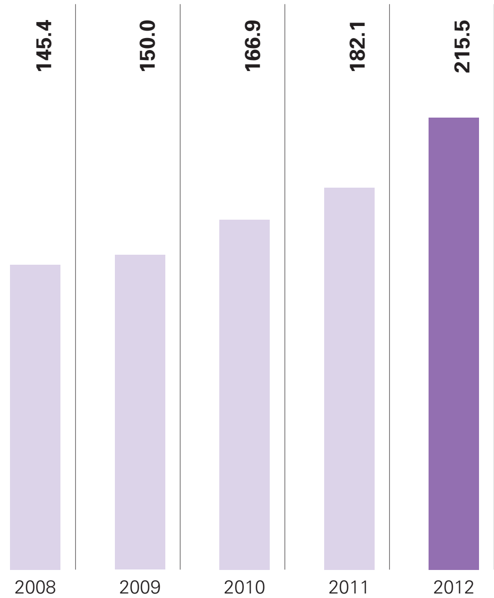
As from 1 January 2012, certain allowances and discounts are disclosed as a deduction of sales in conformity with Nestlé S.A. Group policy and with the practice generally applied by consumer goods companies.

For comparative purpose, 2011 is adjusted to reflect the new turnover definition.

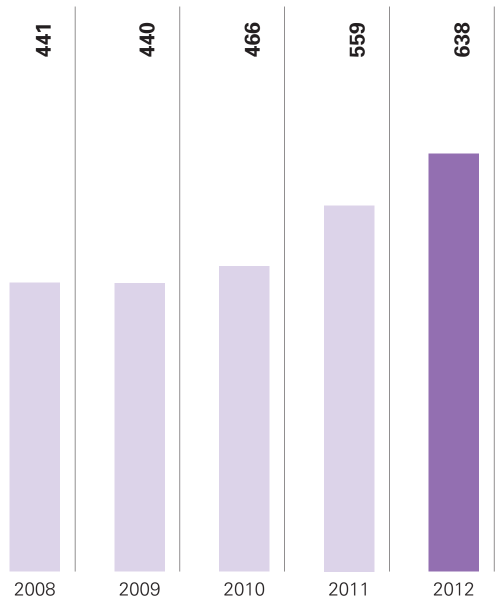
Turnover
(RM million)



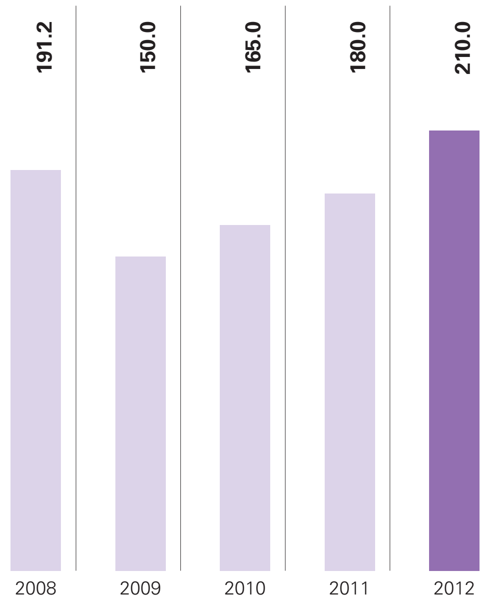
Earnings Per Share
(sen)



Pre-Tax Profit
(RM million)



Net Dividend Per Share
(sen)



Directors' Report

for the year ended 31 December 2012

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of an investment holding company, whilst the principal activities of the subsidiaries are as stated in note 5 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

RESULTS

	Group RM'000	Company RM'000
Profit for the year attributable to owners of the Company	505,352	490,472

RESERVES AND PROVISIONS

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

DIVIDENDS

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

i) a final dividend of 125 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM293,125,000 in respect of the financial year ended 31 December 2011 on 30 May 2012; and

ii) an interim dividend of 55 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM128,975,000 in respect of the financial year ended 31 December 2012 on 4 October 2012.

The final dividend recommended by the Directors in respect of the financial year ended 31 December 2012 is 155 sen per ordinary share, tax exempt under the single-tier tax system, totalling RM363,475,000.

Directors' Report

for the year ended 31 December 2012

DIRECTORS OF THE COMPANY

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

Director	Alternate
Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail *(Chairman)*	
Dato' Frits van Dijk	Mr Detlef Krost *(resigned on 30.6.2012)*
	Mr Adnan Pawanteh *(appointed on 2.7.2012)*
Dato' Mohd. Rafik bin Shah Mohamad	
Mr Peter Vogt	Mr Marc Seiler
Mr Marc Seiler	Mr Peter Vogt
Tan Sri Datuk [Dr.] Rafiah binti Salim	
Tan Sri Datuk Yong Poh Kon	

DIRECTORS' INTERESTS IN SHARES

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

	Number of ordinary shares of RM1 each			
	At 1.1.2012	Bought	Sold	At 31.12.2012
Shareholdings in which Directors have direct interest				
Interest in the Company				
Dato' Frits van Dijk	8,000	–	–	**8,000**

	Number of ordinary shares of CHF0.1 each			
	At 1.1.2012	Bought	Sold	At 31.12.2012
Interest in Nestlé S.A., the holding company				
Mr Peter Vogt	14,600	8,775	–	**23,375**
Mr Marc Seiler	–	2,860	–	**2,860**

None of the other Directors holding office at 31 December 2012 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

Directors' Report

for the year ended 31 December 2012

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

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 financial year.

OTHER STATUTORY INFORMATION

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

i) all known bad debts have been written off and adequate provision made for doubtful debts, and

ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

Directors' Report

for the year ended 31 December 2012

OTHER STATUTORY INFORMATION (CONTINUED)

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

i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Group and in the Company inadequate to any substantial extent, or

ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

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

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

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2012 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:

Peter Vogt **Marc Seiler**

Petaling Jaya, Malaysia
21 February 2013

Statements of Financial Position

as at 31 December 2012

	Note	Group 31.12.2012 RM'000	Group 31.12.2011 RM'000	Group 1.1.2011 RM'000	Company 31.12.2012 RM'000	Company 31.12.2011 RM'000	Company 1.1.2011 RM'000
Assets							
Property, plant and equipment	3	**945,812**	889,741	897,505	**–**	–	–
Goodwill	4	**61,024**	61,024	61,024	**–**	–	–
Investments in subsidiaries	5	**–**	–	–	**188,022**	188,022	188,022
Investment in an associate	6	**3,217**	3,210	3,189	**3,000**	3,000	3,000
Deferred tax assets	7	**32,412**	18,460	19,415	**–**	–	–
Trade and other receivables	8	**22,001**	23,802	22,653	**–**	–	–
Total non-current assets		**1,064,466**	996,237	1,003,786	**191,022**	191,022	191,022
Trade and other receivables	8	**394,144**	444,854	354,303	**441,590**	372,401	347,743
Inventories	9	**411,170**	517,573	380,539	**–**	–	–
Current tax assets		**796**	176	344	**28**	91	20
Cash and cash equivalents	10	**34,593**	52,461	48,683	**–**	–	–
Total current assets		**840,703**	1,015,064	783,869	**441,618**	372,492	347,763
Total assets		**1,905,169**	2,011,301	1,787,655	**632,640**	563,514	538,785
Equity							
Share capital		**234,500**	234,500	234,500	**234,500**	234,500	234,500
Reserves		**32,050**	10,560	37,016	**33,000**	33,000	33,000
Retained earnings		**484,656**	407,659	382,852	**363,643**	295,271	270,481
Total equity attributable to owners of the Company	11	**751,206**	652,719	654,368	**631,143**	562,771	537,981
Liabilities							
Loans and borrowings	12	**95,167**	337,711	326,298	**–**	–	–
Employee benefits	13	**54,546**	42,316	42,537	**–**	–	–
Deferred tax liabilities	7	**74,858**	63,815	43,537	**–**	–	–
Total non-current liabilities		**224,571**	443,842	412,372	**–**	–	–
Loans and borrowings	12	**4,223**	4,223	87,256	**–**	–	–
Trade and other payables	14	**872,045**	878,321	623,269	**1,497**	743	804
Taxation		**53,124**	32,196	10,390	**–**	–	–
Total current liabilities		**929,392**	914,740	720,915	**1,497**	743	804
Total liabilities		**1,153,963**	1,358,582	1,133,287	**1,497**	743	804
Total equity and liabilities		**1,905,169**	2,011,301	1,787,655	**632,640**	563,514	538,785

The notes on pages 40 to 88 are an integral part of these financial statements.

Statements of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2012

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Revenue		**4,556,423**	4,246,744	**490,950**	422,400
Cost of sales		**(3,003,239)**	(2,862,535)	**–**	–
Gross profit		**1,553,184**	1,384,209	**490,950**	422,400
Other income		**5,715**	1,595	**33**	537
Distribution and selling expenses		**(758,635)**	(671,039)	**–**	–
Administrative expenses		**(139,663)**	(128,711)	**(2,467)**	(1,351)
Other expenses		**(3,726)**	(6,626)	**–**	–
Results from operating activities	15	**656,875**	579,428	**488,516**	421,586
Finance income		**929**	458	**2,758**	2,514
Finance costs		**(20,131)**	(21,398)	**–**	–
Net finance (costs)/income		**(19,202)**	(20,940)	**2,758**	2,514
Share of (loss)/profit of an equity accounted associate, net of tax		**(5)**	321	**–**	–
Profit before tax		**637,668**	558,809	**491,274**	424,100
Income tax expense	17	**(132,316)**	(131,681)	**(802)**	(660)
Profit for the year		**505,352**	427,128	**490,472**	423,440
Other comprehensive income/(expense), net of tax					
Item that may be reclassified subsequently to profit or loss					
Cash flow hedge		**21,490**	(26,456)	**–**	–
Item that will not be reclassified subsequently to profit or loss					
Defined benefit plan actuarial losses		**(6,255)**	(3,671)	**–**	–
Other comprehensive income/(expense) for the year, net of tax	18	**15,235**	(30,127)	**–**	–
Total comprehensive income for the year		**520,587**	397,001	**490,472**	423,440
Basic and diluted earnings per ordinary share (sen)	19	**216**	182		

The notes on pages 40 to 88 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

Group	Note	Share capital RM'000	Share premium RM'000	Hedging reserve RM'000	Retained earnings RM'000	Total equity RM'000
		Attributable to owners of the Company				
		Non-distributable			*Distributable*	
At 1 January 2011		234,500	33,000	4,016	382,852	654,368
Cash flow hedge		–	–	(26,456)	–	(26,456)
Defined benefit plan actuarial losses		–	–	–	(3,671)	(3,671)
Other comprehensive expense for the year		–	–	(26,456)	(3,671)	(30,127)
Profit for the year		–	–	–	427,128	427,128
Total comprehensive (expense)/income for the year		–	–	(26,456)	423,457	397,001
Dividends to owners of the Company	20	–	–	–	(398,650)	(398,650)
Total transactions with owners of the Company		–	–	–	(398,650)	(398,650)
At 31 December 2011/1 January 2012		**234,500**	**33,000**	**(22,440)**	**407,659**	**652,719**
Cash flow hedge		**–**	**–**	**21,490**	**–**	**21,490**
Defined benefit plan actuarial losses		**–**	**–**	**–**	**(6,255)**	**(6,255)**
Other comprehensive income/(expense) for the year		**–**	**–**	**21,490**	**(6,255)**	**15,235**
Profit for the year		**–**	**–**	**–**	**505,352**	**505,352**
Total comprehensive income for the year		**–**	**–**	**21,490**	**499,097**	**520,587**
Dividends to owners of the Company	20	**–**	**–**	**–**	**(422,100)**	**(422,100)**
Total transactions with owners of the Company		**–**	**–**	**–**	**(422,100)**	**(422,100)**
At 31 December 2012		**234,500**	**33,000**	**(950)**	**484,656**	**751,206**

The notes on pages 40 to 88 are an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2012

Company	Note	Share capital RM'000	Share premium RM'000	Retained earnings RM'000	Total equity RM'000
		Attributable to owners of the Company			
		Non-distributable		*Distributable*	
At 1 January 2011		234,500	33,000	270,481	537,981
Profit and total comprehensive income for the year		–	–	423,440	423,440
Dividends to owners of the Company	20	–	–	(398,650)	(398,650)
Total transactions with owners of the Company		–	–	(398,650)	(398,650)
At 31 December 2011/1 January 2012		**234,500**	**33,000**	**295,271**	**562,771**
Profit and total comprehensive income for the year		**–**	**–**	**490,472**	**490,472**
Dividends to owners of the Company	20	**–**	**–**	**(422,100)**	**(422,100)**
Total transactions with owners of the Company		**–**	**–**	**(422,100)**	**(422,100)**
At 31 December 2012		**234,500**	**33,000**	**363,643**	**631,143**

The notes on pages 40 to 88 are an integral part of these financial statements.

Statements of Cash Flows

for the year ended 31 December 2012

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Cash flows from operating activities					
Profit before tax		**637,668**	558,809	**491,274**	424,100
Adjustments for:					
Depreciation on property, plant and equipment	3	**101,601**	101,894	**–**	–
Dividend income		**–**	–	**(490,950)**	(422,400)
Expenses related to defined benefit plans	13	**24,291**	12,103	**–**	–
Finance costs		**20,131**	21,398	**–**	–
Finance income		**(929)**	(458)	**(2,758)**	(2,514)
Loss on disposal of property, plant and equipment	15	**269**	670	**–**	–
Property, plant and equipment written off	15	**437**	7,746	**–**	–
Reversal of impairment loss on property, plant and equipment	3	**–**	(151)	**–**	–
Share-based payments	15	**5,678**	17,050	**–**	–
Share of loss/(profit) of an equity accounted associate, net of tax		**5**	(321)	**–**	–
Operating profit/(loss) before changes in working capital		**789,151**	718,740	**(2,434)**	(814)
Change in inventories		**106,403**	(137,034)	**–**	–
Change in trade and other payables		**11,092**	176,564	**754**	(61)
Change in trade and other receivables		**62,402**	(80,775)	**(69,189)**	(24,658)
Cash generated from/(used in) operations		**969,048**	677,495	**(70,869)**	(25,533)
Dividends received from subsidiaries		**–**	–	**490,950**	422,100
Employee benefits paid		**(20,401)**	(17,219)	**–**	–
Income tax paid		**(119,995)**	(78,432)	**(739)**	(731)
Net cash from operating activities		**828,652**	581,844	**419,342**	395,836
Cash flows from investing activities					
Acquisition of property, plant and equipment	(ii)	**(158,442)**	(93,015)	**–**	–
Dividend received from an associate		**–**	300	**–**	300
Finance income received		**929**	458	**2,758**	2,514
Proceeds from disposal of property, plant and equipment		**1,810**	1,574	**–**	–
Net cash (used in)/from investing activities		**(155,703)**	(90,683)	**2,758**	2,814

Statements of Cash Flows

for the year ended 31 December 2012

		Group		Company	
	Note	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash flows from financing activities					
Dividends paid to owners of the Company	20	**(422,100)**	(398,650)	**(422,100)**	(398,650)
Finance costs paid		**(20,131)**	(21,398)	**–**	–
Payment of finance lease liabilities		**(4,290)**	(3,204)	**–**	–
Proceeds from borrowings		**–**	165,000	**–**	–
Repayment of borrowings		**(244,296)**	(202,761)	**–**	–
Net cash used in financing activities		**(690,817)**	(461,013)	**(422,100)**	(398,650)
Net (decrease)/increase in cash and cash equivalents		**(17,868)**	30,148	**–**	–
Cash and cash equivalents at 1 January	(i)	**52,461**	22,313	**–**	–
Cash and cash equivalents at 31 December	(i)	**34,593**	52,461	**–**	–

(i) *Cash and cash equivalents*

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

		Group		Company	
	Note	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash and bank balances	10	**27,205**	36,207	**–**	–
Deposits placed with licensed banks	10	**7,388**	16,254	**–**	–
		34,593	52,461	**–**	–

(ii) *Acquisition of property, plant and equipment*

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM160,188,000 (2011: RM103,969,000), of which RM1,746,000 (2011: RM10,954,000) were acquired by means of finance leases.

Notes to the Financial Statements

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

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

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in an associate. The financial statements of the Company as at and for the financial year ended 31 December 2012 do not include other entities.

The principal activity of the Company is that of an investment holding company, whilst the principal activities of the subsidiaries are as stated in note 5 to the financial statements.

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

The financial statements were authorised for issue by the Board of Directors on 21 February 2013.

1. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards (MFRSs), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia. These are the Group and the Company's first financial statements prepared in accordance with MFRSs and MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards* has been applied.

In the previous financial years, the financial statements of the Group and the Company were prepared in accordance with Financial Reporting Standards (FRSs). The financial impacts of transition to MFRSs are disclosed in note 27 to the financial statements.

The Group and the Company have early adopted the amendments to MFRS 101, *Presentation of Financial Statements* which are effective for annual periods beginning on or after 1 July 2012. The early adoption of the amendments to MFRS 101 has no impact on the financial statements other than the presentation format of the statement of profit or loss and other comprehensive income.

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

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013

- MFRS 10, *Consolidated Financial Statements*
- MFRS 11, *Joint Arrangements*
- MFRS 12, *Disclosure of Interests in Other Entities*
- MFRS 13, *Fair Value Measurement*
- MFRS 119, *Employee Benefits* (2011)
- MFRS 127, *Separate Financial Statements* (2011)

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013 **(continued)**

- MFRS 128, *Investments in Associates and Joint Ventures* (2011)
- IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards – Government Loans*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 101, *Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 132, *Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements: Transition Guidance*
- Amendments to MFRS 11, *Joint Arrangements: Transition Guidance*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Transition Guidance*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015

- MFRS 9, *Financial Instruments* (2009)
- MFRS 9, *Financial Instruments* (2010)
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

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

- from the annual period beginning on 1 January 2013 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2013.

- from the annual period beginning on 1 January 2014 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2014.

- from the annual period beginning on 1 January 2015 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2015.

The initial application of the other standards, amendments and interpretations are not expected to have any material financial impacts to the current and prior periods financial statements of the Group and the Company upon their first adoption.

1. BASIS OF PREPARATION (CONTINUED)

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in note 4 - measurement of the recoverable amounts of cash-generating units.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and in preparing the opening MFRS statements of financial position of the Group and of the Company at 1 January 2011 (the transition date to MFRS framework), unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiaries

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

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

(ii) Loss of control

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(iii) Associates

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

Investment in associates is accounted for in the consolidated financial statements using the equity method less any impairment losses. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income 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 associate, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in profit or loss. Any retained interest in the former associate at the date when significant influence is lost is re-measured at fair value and this amount is regarded as the initial carrying amount of a financial asset.

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not re-measured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to the profit or loss.

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

(iv) Transactions eliminated on consolidation

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

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

(b) Foreign currency

Foreign currency transactions

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency (continued)

Foreign currency transactions (continued)

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

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

(c) Financial instruments

(i) Initial recognition and measurement

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

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

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

(ii) Financial instrument categories and subsequent measurement

The Group and the Company categorise financial instruments as follows:

Financial assets

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

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

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

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

(b) Loans and receivables

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

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

Financial assets (continued)

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

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

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

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

(iii) Hedge accounting

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect the profit or loss. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

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

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss.

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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 knowledgeable willing parties 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 available and replacement cost when appropriate.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

(ii) Subsequent costs

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

(iii) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

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

• leasehold land	46 – 65 years
• buildings	25 – 50 years
• plant and machinery	10 – 25 years
• tools, furniture and equipment	5 – 8 years
• motor vehicles	5 years
• information systems	3 – 10 years

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

(e) Leased assets

(i) Finance lease

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

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leased assets (continued)

(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 the leased assets are not recognised on the Group's statement of financial position.

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

(f) Goodwill

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

Goodwill is not amortised but is tested for impairment annually or more frequently if events or circumstances indicate that an asset might be impaired.

(g) Inventories

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

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

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

(h) Cash and cash equivalents

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

(i) Impairment

(i) Financial assets

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment (continued)

(ii) Other assets

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs 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 or cash-generating unit.

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

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

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

(j) Employee benefits

(i) Short-term employee benefits

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Employee benefits (continued)

(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 its 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 end of the reporting period 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 total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or any settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss 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 profit or loss.

The Group recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in profit or loss.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains and losses and past service cost that had not previously been recognised.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, 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 as expenses if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(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. shares. The fair value of the RSUP granted to these employees is recognised as an employee expense in profit or loss, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the vesting conditions are met.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Provisions

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

Restructuring

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

(l) Revenue and other income

(i) Goods sold

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

(ii) Dividend income

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

(iii) Interest income

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

(m) Borrowing costs

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

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

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Income tax

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

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

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

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

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

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

(o) Earnings per share

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

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

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

(p) Operating segments

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

3. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold land RM'000	Buildings RM'000	Plant and machinery, tools, furniture and equipment RM'000	Motor vehicles RM'000	Information systems RM'000	Capital work-in-progress RM'000	Total RM'000
Cost							
At 1 January 2011	95,489	334,534	1,470,800	18,670	78,726	9,554	2,007,773
Additions	518	14,638	64,982	4,138	3,882	15,811	103,969
Disposals	–	(413)	(4,108)	(3,232)	(1,069)	–	(8,822)
Written off	–	(722)	(44,019)	–	(1,259)	–	(46,000)
Transfer in/(out)	–	1,909	6,883	–	96	(8,888)	–
At 31 December 2011/1 January 2012	**96,007**	**349,946**	**1,494,538**	**19,576**	**80,376**	**16,477**	**2,056,920**
Additions	**–**	**17,455**	**109,126**	**1,876**	**9,165**	**22,566**	**160,188**
Disposals	**–**	**(3,003)**	**(10,170)**	**(3,236)**	**(141)**	**–**	**(16,550)**
Written off	**–**	**(23)**	**(8,159)**	**–**	**(302)**	**–**	**(8,484)**
Transfer in/(out)	**–**	**2,617**	**12,890**	**–**	**790**	**(16,297)**	**–**
At 31 December 2012	**96,007**	**366,992**	**1,598,225**	**18,216**	**89,888**	**22,746**	**2,192,074**
Depreciation and impairment loss							
At 1 January 2011:							
Accumulated depreciation	7,510	98,220	917,951	10,958	54,365	–	1,089,004
Accumulated impairment loss	–	6,284	14,833	–	147	–	21,264
	7,510	104,504	932,784	10,958	54,512	–	1,110,268
Depreciation for the year	1,703	7,631	83,650	1,817	7,093	–	101,894
Reversal of impairment	–	–	(151)	–	–	–	(151)
Disposals	–	(309)	(2,765)	(2,435)	(1,069)	–	(6,578)
Written off	–	(690)	(36,348)	–	(1,216)	–	(38,254)
At 31 December 2011:							
Accumulated depreciation	9,213	104,852	962,488	10,340	59,173	–	1,146,066
Accumulated impairment loss	–	6,284	14,682	–	147	–	21,113
	9,213	111,136	977,170	10,340	59,320	–	1,167,179

Notes to the Financial Statements

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Leasehold land RM'000	Buildings RM'000	Plant and machinery, tools, furniture and equipment RM'000	Motor vehicles RM'000	Information systems RM'000	Capital work-in-progress RM'000	Total RM'000
Depreciation and impairment loss (continued)							
At 1 January 2012:							
Accumulated depreciation	**9,213**	**104,852**	**962,488**	**10,340**	**59,173**	**–**	**1,146,066**
Accumulated impairment loss	**–**	**6,284**	**14,682**	**–**	**147**	**–**	**21,113**
	9,213	**111,136**	**977,170**	**10,340**	**59,320**	**–**	**1,167,179**
Depreciation for the year	**1,711**	**8,325**	**83,138**	**1,965**	**6,462**	**–**	**101,601**
Disposals	**–**	**(2,416)**	**(9,069)**	**(2,847)**	**(139)**	**–**	**(14,471)**
Written off	**–**	**(5)**	**(7,773)**	**–**	**(269)**	**–**	**(8,047)**
At 31 December 2012:							
Accumulated depreciation	**10,924**	**110,756**	**1,028,784**	**9,458**	**65,227**	**–**	**1,225,149**
Accumulated impairment loss	**–**	**6,284**	**14,682**	**–**	**147**	**–**	**21,113**
	10,924	**117,040**	**1,043,466**	**9,458**	**65,374**	**–**	**1,246,262**
Carrying amounts							
At 1 January 2011	87,979	230,030	538,016	7,712	24,214	9,554	897,505
At 31 December 2011/1 January 2012	**86,794**	**238,810**	**517,368**	**9,236**	**21,056**	**16,477**	**889,741**
At 31 December 2012	**85,083**	**249,952**	**554,759**	**8,758**	**24,514**	**22,746**	**945,812**

Leased plant and machinery

At 31 December 2012, the net carrying amount of leased plant and machinery of the Group was RM13,910,000 (31 December 2011: RM16,842,000, 1 January 2011: RM9,595,000).

The Group leases production equipment under a number of finance lease agreements. All 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.

The leased plant and machinery secures lease obligations (see note 12).

4. GOODWILL

	Group		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Cost/Carrying amounts	**61,024**	61,024	61,024

The goodwill relates to the Group's ice-cream business unit.

Impairment testing

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

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

- Cash flows were projected based on actual operating results and financial budgets approved by management covering a 9-year business plan and extended to further 20 years at a fixed growth rate.
- The anticipated annual growth rate is estimated to be 4% to 9%.
- The unit will continue its operations indefinitely.
- A discount rate of 7.2% (31 December 2011: 7.2%, 1 January 2011: 7.2%) was applied.
- The size of operations will remain with at least or not lower than the current results.

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

5. INVESTMENTS IN SUBSIDIARIES

	Company		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At cost:			
Unquoted shares	**188,022**	188,022	188,022

5. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest 31.12.2012 %	31.12.2011 %	1.1.2011 %
Nestlé Products Sdn. Bhd.	Malaysia	Marketing and sales of ice-cream, powdered milk and drinks, liquid milk and juices, instant coffee and other beverages, chocolate confectionery products, instant noodles, culinary products, cereals, yogurt and related products	**100**	100	100
Nestlé Manufacturing (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing and sales of ice-cream, powdered milk and drinks, liquid milk and juices, instant coffee and other beverages, instant noodles, culinary products, cereals, yogurt and related products	**100**	100	100
Nestlé Asean (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing and sales of chocolate confectionery products	**100**	100	100
Nestlé Foods (Malaysia) Sdn. Bhd.	Malaysia	Inactive	**100**	100	100

6. INVESTMENT IN AN ASSOCIATE

	Group 31.12.2012 RM'000	Group 31.12.2011 RM'000	Group 1.1.2011 RM'000	Company 31.12.2012 RM'000	Company 31.12.2011 RM'000	Company 1.1.2011 RM'000
At cost:						
Unquoted shares	**3,000**	3,000	3,000	**3,000**	3,000	3,000
Share of post-acquisition reserves	**217**	210	189	**–**	–	–
	3,217	3,210	3,189	**3,000**	3,000	3,000

Summary financial information for associate, not adjusted for percentage ownership held by the Group:

	Country of incorporation	Effective ownership interest %	Revenue (100%) RM'000	Profit/(Loss) (100%) RM'000	Total assets (100%) RM'000	Total liabilities (100%) RM'000
31.12.2012						
Nihon Canpack (Malaysia) Sdn. Bhd.	Malaysia	**20**	**170,918**	**534**	**68,460**	**52,371**
31.12.2011						
Nihon Canpack (Malaysia) Sdn. Bhd.	Malaysia	20	154,078	1,657	65,615	49,565
1.1.2011						
Nihon Canpack (Malaysia) Sdn. Bhd.	Malaysia	20	107,586	(565)	67,329	51,381

7. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

Group	Assets 31.12.2012 RM'000	Assets 31.12.2011 RM'000	Assets 1.1.2011 RM'000	Liabilities 31.12.2012 RM'000	Liabilities 31.12.2011 RM'000	Liabilities 1.1.2011 RM'000	Net 31.12.2012 RM'000	Net 31.12.2011 RM'000	Net 1.1.2011 RM'000
Property, plant and equipment	**–**	–	–	**(93,917)**	(86,970)	(87,509)	**(93,917)**	(86,970)	(87,509)
Employee benefit plans	**13,636**	10,579	10,634	**–**	–	–	**13,636**	10,579	10,634
Provisions	**19,431**	11,698	13,060	**–**	–	–	**19,431**	11,698	13,060
Hedging reserve	**316**	7,479	–	**–**	–	(1,339)	**316**	7,479	(1,339)
Unutilised tax incentives	**18,088**	11,859	41,032	**–**	–	–	**18,088**	11,859	41,032
Tax assets/(liabilities)	**51,471**	41,615	64,726	**(93,917)**	(86,970)	(88,848)	**(42,446)**	(45,355)	(24,122)
Set off of tax	**(19,059)**	(23,155)	(45,311)	**19,059**	23,155	45,311	**–**	–	–
Net tax assets/ (liabilities)	**32,412**	18,460	19,415	**(74,858)**	(63,815)	(43,537)	**(42,446)**	(45,355)	(24,122)

Notes to the Financial Statements

7. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

Movement in temporary differences during the year

Group	At 1.1.2011 RM'000	Recognised in profit or loss (note 17) RM'000	Recognised in other comprehensive income (note 18) RM'000	At 31.12.2011/ 1.1.2012 RM'000	Recognised in profit or loss (note 17) RM'000	Recognised in other comprehensive income (note 18) RM'000	At 31.12.2012 RM'000
Property, plant and equipment	(87,509)	539	–	**(86,970)**	**(6,947)**	**–**	**(93,917)**
Employee benefit plans	10,634	(1,279)	1,224	**10,579**	**972**	**2,085**	**13,636**
Provisions	13,060	(1,362)	–	**11,698**	**7,733**	**–**	**19,431**
Hedging reserve	(1,339)	–	8,818	**7,479**	**–**	**(7,163)**	**316**
Unutilised tax incentives	41,032	(29,173)	–	**11,859**	**6,229**	**–**	**18,088**
	(24,122)	(31,275)	10,042	**(45,355)**	**7,987**	**(5,078)**	**(42,446)**

8. TRADE AND OTHER RECEIVABLES

	Note	Group 31.12.2012 RM'000	Group 31.12.2011 RM'000	Group 1.1.2011 RM'000	Company 31.12.2012 RM'000	Company 31.12.2011 RM'000	Company 1.1.2011 RM'000
Non-current							
Loans to employees		**22,001**	23,802	22,653	**–**	–	–
Current							
Trade							
Trade receivables		**168,555**	211,587	162,666	**–**	–	–
Less: Impairment loss		**(3,972)**	(6,365)	(6,966)	**–**	–	–
		164,583	205,222	155,700	**–**	–	–
Amounts due from related companies	8.1	**126,297**	143,928	121,175	**–**	–	–
Amount due from an associate	8.1	**9,895**	15,345	11,311	**–**	–	–
Designated as hedging instruments:							
– Commodity futures		**–**	363	2,386	**–**	–	–
– Foreign exchange contracts		**2,245**	39	3,965	**–**	–	–
		303,020	364,897	294,537	**–**	–	–
Non-trade							
Amounts due from subsidiaries	8.2	**–**	–	–	**441,470**	371,981	347,624
Amounts due from related companies	8.1	**15,988**	17,761	7,580	**–**	–	–
Amount due from an associate	8.1	**–**	326	–	**–**	300	–
Other receivables, deposits and prepayments	8.3	**75,136**	61,870	52,186	**120**	120	119
		91,124	79,957	59,766	**441,590**	372,401	347,743
		394,144	444,854	354,303	**441,590**	372,401	347,743
Total		**416,145**	468,656	376,956	**441,590**	372,401	347,743

8. TRADE AND OTHER RECEIVABLES (CONTINUED)

8.1 Amount 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 and an associate are unsecured, interest free and repayable on demand, except for advances to related companies of RM15,944,000 (2011: Nil) which is subject to interest at 3.16% to 3.86% per annum.

8.2 Amount due from subsidiaries

The non-trade receivables due from subsidiaries are unsecured, interest free and repayable on demand, expect for advances to a subsidiary of RM79,276,000 (2011: RM 77,877,000) which is subject to interest at 3.16% to 3.86% (2011: 3.64% to 4.09%) per annum.

8.3 Other receivables, deposits and prepayments

Included in other receivables, deposits and prepayments of the Group are loans to employees of RM10,502,000 (2011: RM9,206,000) which are unsecured and interest free and down payment to vendors of RM27,889,000 (2011: RM7,763,000).

9. INVENTORIES

	Group		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Raw and packaging materials	**181,714**	219,608	144,263
Work-in-progress	**18,951**	21,139	16,558
Finished goods	**189,403**	258,968	202,828
Spare parts	**21,102**	17,858	16,890
	411,170	517,573	380,539
Recognised in profit or loss:			
– Inventories recognised as cost of sales	**2,774,580**	2,641,229	2,220,687

10. CASH AND CASH EQUIVALENTS

	Group		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Cash and bank balances	**27,205**	36,207	48,683
Deposits placed with licensed banks	**7,388**	16,254	–
	34,593	52,461	48,683

Notes to the Financial Statements

11. CAPITAL AND RESERVES

Share capital

	Group and Company					
	Amount 31.12.2012 RM'000	Number of shares 31.12.2012 '000	Amount 31.12.2011 RM'000	Number of shares 31.12.2011 '000	Amount 1.1.2011 RM'000	Number of shares 1.1.2011 '000
Authorised:						
Ordinary shares of RM1 each	**300,000**	**300,000**	300,000	300,000	300,000	300,000
Issued and fully paid:						
Ordinary shares of RM1 each	**234,500**	**234,500**	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.

Share premium

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

Hedging reserve

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

12. LOANS AND BORROWINGS

	Note	Group 31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Non-current				
Loan from a related company - unsecured		**84,264**	324,264	319,264
Finance lease liabilities	12.1	**10,903**	13,447	7,034
		95,167	337,711	326,298
Current				
Revolving credit - unsecured		**–**	–	58,000
Finance lease liabilities	12.1	**4,223**	4,223	2,886
Bank overdraft - unsecured		**–**	–	26,370
		4,223	4,223	87,256
		99,390	341,934	413,554

12. LOANS AND BORROWINGS (CONTINUED)

12.1 Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Future minimum lease payments 31.12.2012 RM'000	Interest 31.12.2012 RM'000	Present value of minimum lease payments 31.12.2012 RM'000	Future minimum lease payments 31.12.2011 RM'000	Interest 31.12.2011 RM'000	Present value of minimum lease payments 31.12.2011 RM'000	Future minimum lease payments 1.1.2011 RM'000	Interest 1.1.2011 RM'000	Present value of minimum lease payments 1.1.2011 RM'000
Less than one year	**4,976**	**753**	**4,223**	5,137	914	4,223	3,402	516	2,886
Between one and five years	**11,970**	**1,067**	**10,903**	14,975	1,528	13,447	7,676	642	7,034
	16,946	**1,820**	**15,126**	20,112	2,442	17,670	11,078	1,158	9,920

13. EMPLOYEE BENEFITS

Retirement benefits

	31.12.2012 RM'000	Group 31.12.2011 RM'000	1.1.2011 RM'000
Present value of funded obligations	**264,084**	229,831	225,253
Fair value of plan assets	**(209,538)**	(187,515)	(182,716)
Recognised liability for defined benefit obligations	**54,546**	42,316	42,537

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.

13. EMPLOYEE BENEFITS (CONTINUED)

Retirement benefits (continued)

Plan assets comprise:

	Group		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Quoted investments	**188,973**	164,505	159,131
Unquoted investments	**–**	–	10,489
Cash and cash equivalents	**17,476**	25,841	5,814
Others	**3,089**	(2,831)	7,282
	209,538	187,515	182,716

Movements in the present value of defined benefit obligations

	Group	
	2012 RM'000	2011 RM'000
Defined benefit obligations at 1 January	**229,831**	225,253
Benefits paid by the plan	**(16,003)**	(14,034)
Current service costs and interest	**24,947**	24,332
Curtailment loss	**6,953**	–
Past service costs	**4,878**	–
Actuarial losses/(gains) recognised	**13,478**	(5,777)
Others	**–**	57
Defined benefit obligations at 31 December	**264,084**	229,831

Movements in the fair value of plan assets

	Group	
	2012 RM'000	2011 RM'000
Fair value of plan assets at 1 January	**187,515**	182,716
Contributions paid into the plan	**20,401**	17,219
Benefits paid by the plan	**(16,003)**	(14,034)
Expected return on plan assets	**12,487**	12,229
Actuarial gains/(losses) recognised	**5,138**	(10,672)
Others	**–**	57
Fair value of plan assets at 31 December	**209,538**	187,515

13. EMPLOYEE BENEFITS (CONTINUED)

Retirement benefits (continued)

Expense recognised in profit or loss

	Note	Group 2012 RM'000	Group 2011 RM'000
Current service costs		**10,050**	9,669
Curtailment losses		**6,953**	–
Past service costs		**4,878**	–
Interest on obligation		**14,897**	14,663
Expected return on plan assets		**(12,487)**	(12,229)
	15	**24,291**	12,103

The expense is recognised in the following line items in the statement of profit or loss and other comprehensive income:

	Note	Group 2012 RM'000	Group 2011 RM'000
Cost of goods sold		**10,521**	5,199
Distribution and selling expenses		**9,457**	4,849
Administrative expenses		**4,313**	2,055
	15	**24,291**	12,103
Actual return on plan assets		**17,624**	1,557

Actuarial gains and losses recognised directly in other comprehensive income

	Group 2012 RM'000	Group 2011 RM'000
Cumulative amount at 1 January	**(10,501)**	(5,606)
Recognised during the year	**(8,340)**	(4,895)
Cumulative amount at 31 December	**(18,841)**	(10,501)

Actuarial assumptions

Principal actuarial assumptions at the reporting date:

	Group 2012	Group 2011
Discount rate	**6.75%**	6.75%
Expected return on plan assets	**7.00%**	7.00%
Future salary increases	**5.00%**	5.50%

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

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.

Notes to the Financial Statements

13. EMPLOYEE BENEFITS (CONTINUED)

Retirement benefits (continued)

Historical information

Group	2012 RM'000	2011 RM'000	2010 RM'000	2009 RM'000	2008 RM'000
Present value of the defined benefit obligation	**264,084**	229,831	225,253	200,417	188,217
Fair value of plan assets	**(209,538)**	(187,515)	(182,716)	(152,006)	(133,519)
Deficit in the plan	**54,546**	42,316	42,537	48,411	54,698
Experience adjustments arising on plan liabilities	**(13,478)**	5,777	(7,905)	(3,747)	(6,161)
Experience adjustments arising on plan assets	**5,138**	(10,672)	11,084	6,115	(11,118)

The Group expects to pay RM17,548,000 in contributions to defined benefit plans in 2013.

14. TRADE AND OTHER PAYABLES

	Note	Group 31.12.2012 RM'000	Group 31.12.2011 RM'000	Group 1.1.2011 RM'000	Company 31.12.2012 RM'000	Company 31.12.2011 RM'000	Company 1.1.2011 RM'000
Trade							
Trade payables		**617,217**	576,508	420,553	**–**	–	–
Amounts due to related companies	14.1	**58,007**	46,566	31,902	**–**	–	–
Amount due to an associate	14.1	**13,300**	14,753	6,737	**–**	–	–
Designated as hedging instruments:							
– Commodity futures		**2,874**	24,555	393	**–**	–	–
– Foreign exchange contracts		**646**	8,951	939	**–**	–	–
		692,044	671,333	460,524	**–**	–	–
Non-trade							
Amounts due to related companies	14.1	**1,973**	45,521	19,774	**87**	–	–
Other payables		**50,733**	39,409	32,367	**612**	3	38
Accrued expenses		**127,295**	122,058	110,604	**798**	740	766
		180,001	206,988	162,745	**1,497**	743	804
		872,045	878,321	623,269	**1,497**	743	804

14.1 Amount due to related companies and an associate

The trade payables due to related companies and an associate are subject to the normal trade terms. The non-trade payables due to related companies are unsecured, repayable on demand and interest free.

15. RESULTS FROM OPERATING ACTIVITIES

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Results from operating activities is arrived at after charging:					
Auditors' remuneration:					
– Statutory audit					
KPMG		**496**	469	**124**	117
– Other services					
KPMG		**231**	165	**223**	165
Affiliates of KPMG		**25**	25	**1**	1
Depreciation of property, plant and equipment	3	**101,601**	101,894	**–**	–
Impairment loss on trade receivables (net)		**17**	–	**–**	–
Loss on disposal of property, plant and equipment		**269**	670	**–**	–
Personnel expenses (including key management personnel):					
– Contributions to Employees Provident Fund		**36,076**	31,304	**–**	–
– Expenses related to defined benefit plans	13	**24,291**	12,103	**–**	–
– Share-based payments		**5,678**	17,050	**–**	–
– Wages, salaries and others		**436,265**	385,392	**–**	–
Property, plant and equipment written off		**437**	7,746	**–**	–
Rental expenses on land and buildings		**50,062**	48,759	**–**	–
and after crediting:					
Dividend income from:					
– Subsidiaries (unquoted)		**–**	–	**490,950**	422,100
– An associate (unquoted)		**–**	300	**–**	300
Net foreign exchange gain:					
– realised		**9,979**	7,110	**33**	537
– unrealised		**238**	235	**–**	–
Reversal of impairment loss on property, plant, and equipment	3	**–**	151	**–**	–
Reversal of impairment loss on trade receivables (net)		**–**	504	**–**	–

Notes to the Financial Statements

16. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations are as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Directors:				
– Fees	**320**	180	**320**	180
– Remuneration	**5,136**	5,426	**–**	–
– Other short-term employee benefits (including estimated monetary value of benefits-in-kind)	**969**	1,068	**50**	50
Total short-term employee benefits	**6,425**	6,674	**370**	230
Post-employment benefits	**501**	552	**–**	–
Share-based payments	**1,525**	1,886	**–**	–
	8,451	9,112	**370**	230
Other key management personnel:				
– Short-term employee benefits	**7,960**	7,484	**–**	–
– Post-employment benefits	**361**	332	**–**	–
– Share-based payments	**1,952**	1,949	**–**	–
	10,273	9,765	**–**	–
	18,724	18,877	**370**	230

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

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

17. INCOME TAX EXPENSE

Recognised in profit or loss

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Income tax expense		**132,316**	131,681	**802**	660

Major components of income tax expense include:

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Current tax expense					
Malaysian – current year		**138,297**	101,328	**696**	656
– prior year		**2,006**	(922)	**106**	4
Total current tax recognised in profit or loss		**140,303**	100,406	**802**	660
Deferred tax expense					
Origination and reversal of temporary differences		**(5,097)**	32,871	**–**	–
Over provided in prior years		**(2,890)**	(1,596)	**–**	–
Total deferred tax recognised in profit or loss	7	**(7,987)**	31,275	**–**	–
Total income tax expense		**132,316**	131,681	**802**	660

Reconciliation of tax expense

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Profit for the year	**505,352**	427,128	**490,472**	423,440
Total income tax expense	**132,316**	131,681	**802**	660
Profit excluding tax	**637,668**	558,809	**491,274**	424,100
Income tax calculated using Malaysian tax rate of 25%	**159,417**	139,702	**122,819**	106,025
Non-deductible expenses	**3,980**	2,787	**615**	231
Tax exempt income	**–**	–	**(122,738)**	(105,600)
Tax incentives	**(30,322)**	(15,605)	**–**	–
Other items	**125**	7,315	**–**	–
Over provided in prior years	**(884)**	(2,518)	**106**	4
	132,316	131,681	**802**	660

Notes to the Financial Statements

18. OTHER COMPREHENSIVE INCOME/(EXPENSE)

Group	2012 Before tax RM'000	2012 Tax (expense)/ benefit RM'000	2012 Net of tax RM'000	2011 Before tax RM'000	2011 Tax (expense)/ benefit RM'000	2011 Net of tax RM'000
Items that may be reclassified subsequently to profit or loss						
Cash flow hedge						
– Gains/(Losses) arising during the year	**281**	**(70)**	**211**	(47,866)	11,966	(35,900)
– Reclassification adjustments for losses included in profit or loss	**28,372**	**(7,093)**	**21,279**	12,592	(3,148)	9,444
	28,653	**(7,163)**	**21,490**	(35,274)	8,818	(26,456)
Item that will not be reclassified subsequently to profit or loss						
Defined benefit plan actuarial losses	**(8,340)**	**2,085**	**(6,255)**	(4,895)	1,224	(3,671)
	20,313	**(5,078)**	**15,235**	(40,169)	10,042	(30,127)

19. EARNINGS PER ORDINARY SHARE – BASIC AND DILUTED

The calculation of earnings per ordinary share for the year ended 31 December 2012 was based on the profit attributable to ordinary shareholders of RM505.4 million (2011: RM427.1 million) and 234.5 million (2011: 234.5 million) ordinary shares outstanding during the year.

20. DIVIDENDS

Dividends recognised by the Company are:

	Sen per share	Total amount RM'000	Date of payment
2012			
Interim 2012 ordinary			
Tax exempt (single-tier)	**55**	**128,975**	**4 October 2012**
Final 2011 ordinary			
Tax exempt (single-tier)	**125**	**293,125**	**30 May 2012**
Total amount		**422,100**	
2011			
Interim 2011 ordinary			
Tax exempt (single-tier)	55	128,975	5 October 2011
Final 2010 ordinary			
Tax exempt (single-tier)	115	269,675	26 May 2011
Total amount		398,650	

20. DIVIDENDS (CONTINUED)

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

	Sen per share	Total amount RM'000
Final ordinary		
Tax exempt (single-tier)	155	363,475

21. OPERATING SEGMENTS

The Group has two operating segments – Food and beverages and Others which include Nutrition and Nestlé Professional.

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

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

	Food and beverages		Others		Total	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Revenue and results						
Revenue	**3,740,653**	3,500,492	**815,770**	746,252	**4,556,423**	4,246,744
Operating profit	**536,236**	481,346	**121,039**	108,272	**657,275**	589,618
Included in the measure of segment operating profit are:						
Depreciation on property, plant and equipment	**89,282**	89,224	**12,319**	12,670	**101,601**	101,894
Reversal of impairment loss on property, plant and equipment	**–**	(151)	**–**	–	**–**	(151)

21. OPERATING SEGMENTS (CONTINUED)

Reconciliations of reportable segment profit or loss

	2012 RM'000	2011 RM'000
Profit or loss		
Total profit for reportable segments	**657,275**	589,618
Finance costs	**(20,131)**	(21,398)
Finance income	**929**	458
Other unallocated expenses	**(400)**	(10,190)
Share of (loss)/profit of an associate not included in reportable segments	**(5)**	321
Consolidated profit before tax	**637,668**	558,809

22. FINANCIAL INSTRUMENTS

22.1 Categories of financial instruments

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

(a) Loans and receivables (L&R);

(b) Other financial liabilities measured at amortised cost (OL); and

(c) Derivatives designated as hedging instruments.

	Carrying amount RM'000	L&R/ (OL) RM'000	Derivatives - designated as hedging instruments RM'000
31.12.2012			
Financial assets			
Group			
Trade and other receivables	**413,045**	**410,800**	**2,245**
Cash and cash equivalents	**34,593**	**34,593**	**–**
	447,638	**445,393**	**2,245**
Company			
Trade and other receivables	**441,590**	**441,590**	**–**
Financial liabilities			
Group			
Loans and borrowings	**(99,390)**	**(99,390)**	**–**
Trade and other payables	**(872,045)**	**(868,525)**	**(3,520)**
	(971,435)	**(967,915)**	**(3,520)**
Company			
Trade and other payables	**(1,497)**	**(1,497)**	**–**

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.1 Categories of financial instruments (continued)

	Carrying amount RM'000	L&R/ (OL) RM'000	Derivatives - designated as hedging instruments RM'000
31.12.2011			
Financial assets			
Group			
Trade and other receivables	464,379	463,977	402
Cash and cash equivalents	52,461	52,461	–
	516,840	516,438	402
Company			
Trade and other receivables	372,401	372,401	–
Financial liabilities			
Group			
Loans and borrowings	(341,934)	(341,934)	–
Trade and other payables	(878,321)	(844,815)	(33,506)
	(1,220,255)	(1,186,749)	(33,506)
Company			
Trade and other payables	(743)	(743)	–
1.1.2011			
Financial assets			
Group			
Trade and other receivables	374,191	367,840	6,351
Cash and cash equivalents	48,683	48,683	–
	422,874	416,523	6,351
Company			
Trade and other receivables	347,743	347,743	–
Financial liabilities			
Group			
Loans and borrowings	(413,554)	(413,554)	–
Trade and other payables	(623,269)	(621,937)	(1,332)
	(1,036,823)	(1,035,491)	(1,332)
Company			
Trade and other payables	(804)	(804)	–

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.2 Net gains and losses arising from financial instruments

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Net (losses)/gains on:				
Fair value through profit or loss:				
– Designated upon initial recognition	**(21,769)**	(29,846)	**–**	–
Loans and receivables	**830**	2,954	**2,758**	2,514
Financial liabilities measured at amortised cost	**(20,473)**	(11,682)	**33**	537
	(41,412)	(38,574)	**2,791**	3,051

22.3 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

22.4 Credit risk

Credit risk is the risk of a financial loss to the Group or the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from its third party receivables (domestic and foreign). The Group does not foresee any credit risk arises from amount due from related companies. The Company's exposure to credit risk arises mainly from amount due from subsidiaries.

Receivables

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk, credit quality and collateral

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

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

Receivables are partially secured either by bank guarantees or traded shares. As at the end of the reporting period, the total collateral assigned to the Group was RM62,866,000 (2011: RM71,310,000).

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.4 Credit risk (continued)

Receivables (continued)

Impairment losses

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

Group	Gross RM'000	Individual impairment RM'000	Net RM'000
31.12.2012			
Not past due	**154,862**	**–**	**154,862**
Past due 0-30 days	**4,318**	**–**	**4,318**
Past due 31-120 days	**4,200**	**(1,355)**	**2,845**
Past due more than 120 days	**5,175**	**(2,617)**	**2,558**
	168,555	**(3,972)**	**164,583**
31.12.2011			
Not past due	158,072	–	158,072
Past due 0-30 days	42,359	–	42,359
Past due 31-120 days	5,740	(949)	4,791
Past due more than 120 days	5,416	(5,416)	–
	211,587	(6,365)	205,222
1.1.2011			
Not past due	137,059	–	137,059
Past due 0-30 days	12,792	–	12,792
Past due 31-120 days	3,395	–	3,395
Past due more than 120 days	9,420	(6,966)	2,454
	162,666	(6,966)	155,700

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

	Group 2012 RM'000	Group 2011 RM'000
At 1 January	**6,365**	6,966
Impairment loss recognised	**346**	505
Impairment loss reversed	**(329)**	(1,009)
Impairment loss written off	**(2,410)**	(97)
At 31 December	**3,972**	6,365

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

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.4 Credit risk (continued)

Receivables (continued)

Impairment losses (continued)

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

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

Amount due from subsidiaries

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk, credit quality and collateral

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

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

Impairment losses

The Company does not specifically monitor the ageing of the advances to the subsidiaries. Impairment losses are provided when there was an indication that the loans and advances to the subsidiaries are not recoverable.

22.5 Liquidity risk

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

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

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.5 Liquidity risk (continued)

Maturity analysis

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

Group	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
31.12.2012						
Non-derivative financial liabilities						
Finance lease liabilities	**15,126**	**5.00**	**16,946**	**4,976**	**4,849**	**7,121**
Loan from a related company - unsecured	**84,264**	**3.20 - 3.92**	**89,656**	**2,696**	**86,960**	**–**
Trade and other payables, excluding derivatives	**868,525**	**–**	**868,525**	**868,525**	**–**	**–**
	967,915		**975,127**	**876,197**	**91,809**	**7,121**
Derivative financial liabilities/(assets)						
Foreign exchange contracts (gross settled):						
– Outflow	**–**	**–**	**210,447**	**210,447**	**–**	**–**
– Inflow	**(1,599)**	**–**	**(212,046)**	**(212,046)**	**–**	**–**
Commodity futures	**2,874**	**–**	**2,874**	**2,874**	**–**	**–**
	969,190		**976,402**	**877,472**	**91,809**	**7,121**
31.12.2011						
Non-derivative financial liabilities						
Finance lease liabilities	17,670	5.00	20,112	5,137	4,627	10,348
Loan from a related company - unsecured	324,264	3.74 - 3.99	350,140	12,938	337,202	–
Trade and other payables, excluding derivatives	844,815	–	844,815	844,815	–	–
	1,186,749		1,215,067	862,890	341,829	10,348
Derivative financial liabilities/(assets)						
Foreign exchange contracts (gross settled):						
– Outflow	8,912	–	422,907	422,907	–	–
– Inflow	–	–	(413,995)	(413,995)	–	–
Commodity futures	24,192	–	24,192	24,192	–	–
	1,219,853		1,248,171	895,994	341,829	10,348

Notes to the Financial Statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.5 Liquidity risk (continued)

Maturity analysis (continued)

Group	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
1.1.2011						
Non-derivative financial liabilities						
Finance lease liabilities	9,920	5.00	11,078	3,402	2,766	4,910
Revolving credit – unsecured	58,000	3.47 - 3.50	58,000	58,000	–	–
Bank overdrafts	26,370	7.30	26,370	26,370	–	–
Loan from a related company - unsecured	319,264	3.05 - 3.74	343,144	11,940	331,204	–
Trade and other payables, excluding derivatives	621,937	–	621,937	621,937	–	–
	1,035,491		1,060,529	721,649	333,970	4,910
Derivative financial liabilities/(assets)						
Foreign exchange contracts (gross settled):						
– Outflow	–	–	200,956	200,956	–	–
– Inflow	(3,026)	–	(203,982)	(203,982)	–	–
Commodity futures	(1,993)	–	(1,993)	(1,993)	–	–
	1,030,472		1,055,510	716,630	333,970	4,910

The Company's financial liabilities are interest free and payable within one year.

22.6 Market risk

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

22.6.1 Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Group entities. The currencies giving rise to this risk are primarily U.S. Dollar (USD), Singapore Dollar (SGD) and Thai Baht (THB).

Risk management objectives, policies and processes for managing the risk

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

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.

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Market risk (continued)

22.6.1 Currency risk (continued)

Exposure to foreign currency risk

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

Group	31.12.2012 Denominated in			31.12.2011 Denominated in			1.1.2011 Denominated in		
	USD RM'000	SGD RM'000	THB RM'000	USD RM'000	SGD RM'000	THB RM'000	USD RM'000	SGD RM'000	THB RM'000
Trade receivables	**3,181**	**1,216**	**12,617**	184	1,618	7,709	96	1,540	6,940
Trade payables	**(68,890)**	**(3,131)**	**(4,049)**	(77,128)	(2,290)	(3,340)	(71,316)	(2,929)	(1,283)
Intra-group receivables	**117,272**	**9,880**	**–**	148,546	10,942	–	115,726	10,511	–
Intra-group payables	**(24,116)**	**(12,416)**	**–**	(54,203)	(12,705)	–	(13,929)	(8,380)	–
Commodity futures	**(2,115)**	**–**	**–**	(2,739)	–	–	1,584	–	–
Exposure in the statement of financial position	**25,332**	**(4,451)**	**8,568**	14,660	(2,435)	4,369	32,161	742	5,657
Net contracted foreign exchange contracts	**(142,227)**	**145**	**82**	(417,648)	–	–	(153,586)	(14,979)	(7,263)
Net exposure	**(116,895)**	**(4,306)**	**8,650**	(402,988)	(2,435)	4,369	(121,425)	(14,237)	(1,606)

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Market risk (continued)

22.6.1 Currency risk (continued)

Currency risk sensitivity analysis

A 10% (2011: 10%) strengthening of RM against the following currencies at the end of the reporting period would have increased (decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular ratio, remained constant and ignores any impact of forecasted sales and purchases.

Group	2012 RM'000	2011 RM'000
USD	**11,690**	40,299
SGD	**431**	244
THB	**(865)**	(437)

A 10% (2011: 10%) weakening of RM against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

22.6.2 Interest rate risk

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

Risk management objectives, policies and processes for managing the risk

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

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

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Market risk (continued)

22.6.2 Interest rate risk (continued)

Exposure to interest rate risk

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

	Group			Company		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Fixed rate instruments						
Financial liabilities	**(15,126)**	(17,670)	(9,920)	**–**	–	–
Floating rate instruments						
Financial assets	**–**	–	–	**79,276**	77,877	81,692
Financial liabilities	**(84,264)**	(324,264)	(403,634)	**–**	–	–
	(84,264)	(324,264)	(403,634)	**79,276**	77,877	81,692

Interest rate risk sensitivity analysis

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in interest rates at the end of the reporting period would have increased (decreased) profit or loss before tax by RM843,000 (2011: RM3,243,000) on the floating rate financial instruments. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

22.6.3 Commodity price risk

Commodity price risk arises from transactions on the world commodity markets for securing the supplies of coffee, cocoa and palm oil for the manufacture of the Group's products.

Risk management objectives, policies and processes for managing the risk

Commodity instruments are used to ensure the Group's access to raw materials at an appropriate price. The commodity contracts giving rise to this risk are primarily futures contracts and options.

Palm oil contracts are transacted by regional Commodity Purchasing Competence Center ("CPCC") based in Nestlé Singapore, whilst coffee and cocoa commodity contracts are transacted by CPCC 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.

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.7 Hedging activities

Cash flow hedge

The Group uses cash flow hedges to mitigate foreign currency risks of highly probable forecast transactions, such as anticipated future export sales, purchases of equipment and raw materials. The foreign exchange contracts and commodity futures have the nominal value of RM413,332,000 (2011: RM422,574,000) and RM101,286,000 (2011: RM183,156,000) respectively. The foreign exchange contracts and commodity futures are entered into within a year and settled according to the individual contracts settlement date.

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

Group	Carrying amount RM'000	Expected cash flows RM'000	Under 1 year RM'000
2012			
Foreign exchange contracts	**1,598**	**1,598**	**1,598**
Commodity futures	**(2,874)**	**(2,874)**	**(2,874)**
2011			
Foreign exchange contracts	(8,912)	(8,912)	(8,912)
Commodity futures	(24,192)	(24,192)	(24,192)

During the financial year, a gain of RM211,000 (2011: loss of RM35,900,000) was recognised in the other comprehensive income and RM21,279,000 (2011: RM9,444,000) was reclassified from equity to profit or loss. Ineffectiveness gain amounting to RM2,504,000 (2011: loss of RM3,421,000) was recognised in profit or loss during the financial year in respect of the hedge.

22.8 Fair value of financial instruments

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

The fair values of other financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

Group	31.12.2012		31.12.2011		1.1.2011	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Loans to employees	**32,503**	**32,503**	33,008	33,008	31,808	31,808
Finance lease liabilities	**(15,126)**	**(14,038)**	(17,670)	(16,174)	(9,920)	(8,825)
Loan from a related company	**(84,264)**	**(84,264)**	(324,264)	(324,264)	(319,264)	(319,264)

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.8 Fair value of financial instruments (continued)

22.8.1 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 : Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 : Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
31.12.2012			
Financial assets			
Forward exchange contracts	**–**	**2,244**	**–**
	–	**2,244**	**–**
Financial liabilities			
Commodity futures	**(2,874)**	**–**	**–**
Forward exchange contracts	**–**	**(646)**	**–**
	(2,874)	**(646)**	**–**
31.12.2011			
Financial assets			
Commodity futures	363	–	–
Forward exchange contracts	–	39	–
	363	39	–
Financial liabilities			
Commodity futures	(24,555)	–	–
Forward exchange contracts	–	(8,951)	–
	(24,555)	(8,951)	–
1.1.2011			
Financial assets			
Commodity futures	2,386	–	–
Forward exchange contracts	–	3,965	–
	2,386	3,965	–
Financial liabilities			
Commodity futures	(393)	–	–
Forward exchange contracts	–	(939)	–
	(393)	(939)	–

Notes to the Financial Statements

23. CAPITAL MANAGEMENT

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business. There were no changes to the Group's approach to capital management during the financial year.

Under the requirement of Bursa Malaysia Practice Note No. 17/2005, the Company is required to maintain a consolidated shareholders' equity equal to or not less than the 25 percent of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM40 million. The Company has complied with this requirement.

24. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

		Group	
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Less than one year	**22,083**	20,354	14,997
Between one and five years	**53,985**	61,697	5,486
More than five years	**–**	7,712	–
	76,068	89,763	20,483

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

25. CAPITAL AND OTHER COMMITMENTS

		Group	
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Capital expenditure commitments			
Plant and equipment			
Authorised but not contracted for	**368,345**	179,689	115,784
Contracted but not provided for			
Within one year	**53,517**	31,119	21,085
	421,862	210,808	136,869

26. RELATED PARTIES

Identity of related parties

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

26. RELATED PARTIES (CONTINUED)

Identity of related parties (continued)

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

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

Significant related party transactions

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

		2012		2011	
Group	Note	Amount transacted for the year ended 31 December RM'000	Balance outstanding as at 31 December RM'000	Amount transacted for the year ended 31 December RM'000	Balance outstanding as at 31 December RM'000
Related companies					
Sales of goods and services	a	**(999,683)**	**128,361**	(1,020,585)	143,929
Purchases of goods and services	a	**421,775**	**(37,941)**	434,454	(50,740)
Royalties		**202,532**	**(14,472)**	182,604	(13,675)
IT shared services		**27,764**	**–**	25,466	(6,207)
Finance costs		**8,080**	**(1,172)**	11,517	(2,507)
Companies in which Director has interest					
Purchases of goods and services	a	**6,533**	**(898)**	89,100	(6,792)
Company					
Subsidiaries					
Finance income	b	**(2,786)**	**219**	(3,051)	254

All of the above outstanding balances are expected to be settled in cash by the related parties.

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

Note b Loans to subsidiaries are unsecured, subject to interest at 3.16% to 3.86% (2011: 3.64% to 4.09%) per annum and are repayable on demand.

Notes to the Financial Statements

27. EXPLANATION OF TRANSITION TO MFRSs

As stated in note 1(a), these are the first financial statements of the Group and of the Company prepared in accordance with MFRSs.

The accounting policies set out in note 2 have been applied in preparing the financial statements of the Group and of the Company for the financial year ended 31 December 2012, the comparative information presented in these financial statements for the financial year ended 31 December 2011 and in the preparation of the opening MFRS statement of financial position at 1 January 2011 (the Group's date of transition to MFRSs).

The transition to MFRSs does not have financial impact to the separate financial statements of the Company.

In preparing the opening consolidated statement of financial position at 1 January 2011, the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous FRSs. An explanation of how the transition from previous FRSs to MFRSs has affected the Group's financial position and financial performance is set out as follows:

27.1 Reconciliation of financial position

Group	Note	FRSs RM'000	1.1.2011 Effect of transition to MFRSs RM'000	MFRSs RM'000	FRSs RM'000	31.12.2011 Effect of transition to MFRSs RM'000	MFRSs RM'000
Assets							
Property, plant and equipment		897,505	–	897,505	889,741	–	889,741
Goodwill		61,024	–	61,024	61,024	–	61,024
Investment in an associate		3,189	–	3,189	3,210	–	3,210
Deferred tax assets	a	10,441	8,974	19,415	9,482	8,978	18,460
Trade and other receivables		22,653	–	22,653	23,802	–	23,802
Total non-current assets		994,812	8,974	1,003,786	987,259	8,978	996,237
Trade and other receivables		354,303	–	354,303	444,854	–	444,854
Inventories		380,539	–	380,539	517,573	–	517,573
Current tax assets		344	–	344	176	–	176
Cash and cash equivalents		48,683	–	48,683	52,461	–	52,461
Total current assets		783,869	–	783,869	1,015,064	–	1,015,064
Total assets		1,778,681	8,974	1,787,655	2,002,323	8,978	2,011,301

27. EXPLANATION OF TRANSITION TO MFRSs (CONTINUED)

27.1 Reconciliation of financial position (continued)

Group	Note	1.1.2011 FRSs RM'000	1.1.2011 Effect of transition to MFRSs RM'000	1.1.2011 MFRSs RM'000	31.12.2011 FRSs RM'000	31.12.2011 Effect of transition to MFRSs RM'000	31.12.2011 MFRSs RM'000
Equity							
Share capital		234,500	–	234,500	234,500	–	234,500
Reserves		37,016	–	37,016	10,560	–	10,560
Retained earnings	a	341,820	41,032	382,852	395,800	11,859	407,659
Total equity attributable to owners of the Company		613,336	41,032	654,368	640,860	11,859	652,719
Liabilities							
Loans and borrowings		326,298	–	326,298	337,711	–	337,711
Employee benefits		42,537	–	42,537	42,316	–	42,316
Deferred tax liabilities	a	75,595	(32,058)	43,537	66,696	(2,881)	63,815
Total non-current liabilities		444,430	(32,058)	412,372	446,723	(2,881)	443,842
Loans and borrowings		87,256	–	87,256	4,223	–	4,223
Trade and other payables		623,269	–	623,269	878,321	–	878,321
Taxation		10,390	–	10,390	32,196	–	32,196
Total current liabilities		720,915	–	720,915	914,740	–	914,740
Total liabilities		1,165,345	(32,058)	1,133,287	1,361,463	(2,881)	1,358,582
Total equity and liabilities		1,778,681	8,974	1,787,655	2,002,323	8,978	2,011,301

Notes to the Financial Statements

27. EXPLANATION OF TRANSITION TO MFRSs (CONTINUED)

27.2 Reconciliation of profit or loss and other comprehensive income for the year ended 31 December 2011

Group	Note	FRSs RM'000	Effect of transition to MFRSs RM'000	MFRSs RM'000
Revenue	b	4,700,994	(454,250)	4,246,744
Cost of sales		(3,158,877)	296,342	(2,862,535)
Gross profit		1,542,117	(157,908)	1,384,209
Other income		1,595	–	1,595
Distribution and selling expenses		(828,947)	157,908	(671,039)
Administrative expenses		(128,711)	–	(128,711)
Other expenses		(6,626)	–	(6,626)
Results from operating activities		579,428	–	579,428
Finance income		458	–	458
Finance costs		(21,398)	–	(21,398)
Net finance costs		(20,940)	–	(20,940)
Share of profit of an equity accounted associate, net of tax		321	–	321
Profit before tax		558,809	–	558,809
Income tax expense	a	(102,508)	(29,173)	(131,681)
Profit for the year		456,301	(29,173)	427,128
Other comprehensive expense, net of tax				
Item that may be reclassified subsequently to profit or loss				
Cash flow hedge		(26,456)	–	(26,456)
Item that will not be reclassified subsequently to profit or loss				
Defined benefit plan actuarial losses		(3,671)	–	(3,671)
Other comprehensive expense for the year, net of tax		(30,127)	–	(30,127)
Total comprehensive income for the year		426,174	(29,173)	397,001

27. EXPLANATION OF TRANSITION TO MFRSs (CONTINUED)

27.3 Material adjustments to the statements of cash flows for 2011

There are no material differences between the statement of cash flows presented under MFRSs and the statement of cash flows presented under FRSs.

27.4 Notes to reconciliations

(a) Deferred tax on investment tax incentives

In the previous financial years, the Group treats investment tax incentives as part of the tax base of an asset and does not recognise the resulting deferred tax asset on initial recognition of the asset and subsequently.

Under MFRS 112, *Income Taxes*, the Group recognised the deferred tax asset arising from the unutilised investment tax incentives.

The impact arising from the change is summarised as follows:

	Group 1.1.2011 RM'000	31.12.2011 RM'000
Consolidated statement of profit or loss and other comprehensive income		
Income tax expense	–	29,173
Consolidated statement of financial position		
Deferred tax assets	8,974	8,978
Deferred tax liabilities	32,058	2,881
Adjustment to retained earnings	41,032	11,859

(b) Presentation of revenue

Certain allowances and discounts granted to trade chains, distributors, retailers and consumers for services rendered to the Group concerning trade and consumer promotions, selling, distribution, advertising etc. were previously reported as cost of sales and expenses under marketing and administration expenses as well as distribution expenses on grounds that they are incurred to generate sales. These allowances and discounts, as from 1 January 2012, are disclosed as a deduction of sales in conformity with Nestlé S.A. Group policy and with the practice generally applied by consumer goods companies.

28. SUPPLEMENTARY FINANCIAL INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of the retained earnings of the Group and of the Company as at 31 December, into realised and unrealised profits, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Total retained earnings of the Company and its subsidiaries:				
– realised	**508,706**	441,979	**363,643**	295,271
– unrealised	**(86,125)**	(74,468)	**–**	–
	422,581	367,511	**363,643**	295,271
Total share of retained earnings of an associate:				
– realised	**217**	210	**–**	–
Less: Consolidation adjustments	**61,858**	39,938	**–**	–
Total retained earnings	**484,656**	407,659	**363,643**	295,271

The determination of realised and unrealised profits is based on the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by Malaysian Institute of Accountants on 20 December 2010.

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 34 to 87 are drawn up in accordance with Malaysian Financial Reporting Standards, International 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 2012 and of their financial performance and cash flows for the year then ended.

In the opinion of the Directors, the information set out in Note 28 on page 88 to the financial statements has been compiled in accordance with Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

Peter Vogt

Marc Seiler

Petaling Jaya, Malaysia
21 February 2013

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 34 to 88 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 21 February 2013.

Marc Seiler

Before me:

Faridah Bt. Sulaiman
Commissioner of Oaths (No. B228)

Petaling Jaya, Malaysia

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 statements of financial position as at 31 December 2012 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 34 to 87.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 judgement, 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 entity's preparation of financial statements that give a true and fair view 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 entity'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 give a true and fair view of the financial position of the Group and of the Company as of 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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.

Independent Auditors' Report

to the members of Nestlé (Malaysia) Berhad

OTHER REPORTING RESPONSIBILITIES

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 28 on page 88 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Malaysian Financial Reporting Standards or International Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

Adrian Lee Lye Wang
Approval Number: 2679/11/13(J)
Chartered Accountant

Petaling Jaya, Malaysia
21 February 2013

Shareholdings Statistics

as at 21 February 2013

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	:	5,083
Voting rights	:	One vote per ordinary share

SUBSTANTIAL SHAREHOLDERS

Name	Number of shares held	%
Nestlé S.A.	170,276,563	72.612
Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board	21,379,200	9.116
Kumpulan Wang Persaraan (Diperbadankan)	5,575,000	2.377

30 LARGEST SHAREHOLDERS

Name	Number of shares held	%
Nestlé S.A.	170,276,563	72.612
Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board	21,379,200	9.116
Kumpulan Wang Persaraan (Diperbadankan)	5,575,000	2.377
Malaysia Nominees (Tempatan) Sdn Bhd - Great Eastern Life Assurance (Malaysia) Berhad (Par 1)	3,690,810	1.573
Valuecap Sdn Bhd	1,867,500	0.796
Lembaga Tabung Haji	1,622,354	0.691
Employees Provident Fund Board	1,500,000	0.639
Amanahraya Trustees Berhad - Skim Amanah Saham Bumiputera	1,358,000	0.579
Pertubuhan Keselamatan Sosial	1,347,900	0.574
Amanahraya Trustees Berhad - Public Islamic Dividend Fund	1,244,400	0.530
BIMB Securities Sdn Bhd - Clr for Lembaga Tabung Haji	808,300	0.344
Amanahraya Trustees Berhad - Public Islamic Equity Fund	691,000	0.294
Cartaban Nominees (Asing) Sdn Bhd - RBC Investor Services Bank for Vontobel Fund - Far East Equity	602,300	0.256
Amanahraya Trustees Berhad - Amanah Saham Wawasan 2020	570,700	0.243
Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (Aberdeen)	565,000	0.240
Kwang Teow Sang Sdn Bhd	560,700	0.239
Amanahraya Trustees Berhad - Amanah Saham Malaysia	537,300	0.229

Shareholdings Statistics

as at 21 February 2013

30 LARGEST SHAREHOLDERS (CONTINUED)

Name	Number of shares held	%
Malaysia Nominees (Tempatan) Sdn Bhd - Great Eastern Life Assurance (Malaysia) Berhad (Par 2)	461,400	0.196
Woo Khai Yoon	430,300	0.183
Citigroup Nominees (Tempatan) Sdn Bhd - Kumpulan Wang Persaraan (diperbadankan) (Aberdeen)	415,600	0.177
Batu Pahat Seng Huat Sdn Berhad	363,985	0.155
Kuok Foundation Berhad	304,200	0.129
Citigroup Nominees (Tempatan) Sdn Bhd - Employees Provident Fund Board (CIMB Prin)	274,300	0.116
Seah Gak San	252,500	0.107
Jarrnazz Sdn Bhd	248,000	0.105
Amsec Nominees (Tempatan) Sdn Bhd - Amtrustee Bhd for CIMB Islamic Dali Equity Growth Fund (UT-CIMB-Dali)	233,000	0.099
Amanahraya Trustees Berhad - Public Dividend Select Fund	199,700	0.085
Maybank Nominees (Tempatan) Sdn Bhd - Etiqa Insurance Berhad (Life Par Fund)	198,500	0.084
Amanahraya Trustees Berhad - Pb Growth Fund	198,400	0.084
Mohd Nasser Bin Jaafar	194,550	0.082

Size of Holdings	No. of Shareholders/ Depositors	% of Shareholders/ Depositors	No. of Shares Held	% of Issued Capital
1 – 99	436	8.578	3,232	0.001
100 – 1,000	3,245	63.840	1,911,736	0.815
1,001 – 10,000	1,081	21.267	3,802,810	1.622
10,001 – 100,000	271	5.332	8,123,930	3.464
100,001 – less than 5% of issued shares	48	0.944	29,002,529	12.368
5% and above of issued shares	2	0.039	191,655,763	81.730
Total	**5,083**	**100.000**	**234,500,000**	**100.000**

DIRECTORS' SHAREHOLDINGS

The Company	Direct Interests (no. of shares)	% of Issued Capital	Deemed Interests (no. of shares)	% of Issued Capital
Dato' Frits van Dijk	8,000	0.0034	–	–

List of Properties Held

at 31 December 2012

	Location	Tenure	Age*	Expiry Date	Size (m²)	Description	Net Book Value RM'000
1.	No. 25 Jalan Tandang 46050 Petaling Jaya Selangor	Leasehold	52	Q.T. (R) 2619 25.9.2066 Q.T. (R) 5281 7.10.2069	50,342	Factory	16,834
2.	Lot No. 3 Jalan Playar 15/1 40700 Shah Alam Selangor	Leasehold	42	10.6.2070	10,150	Factory	1,974
3.	Lot No. 5 Jalan Playar 15/1 40700 Shah Alam Selangor	Leasehold	39	H.S.(D) 97 H.S.(D) 159 7.11.2072	62,596	Factory	6,493
4.	Lot No. 6 Pesiaran Raja Muda 40700 Shah Alam Selangor	Leasehold	43	29.1.2070	36,835	Factory & warehouse	11,632
5.	Lot Nos. 691 - 696 Mukim Chembong Daerah Rembau Negeri Sembilan	Leasehold	21	27.6.2049	173,185	Factory	3,133
6.	Lot Nos. 3863 - 3866 and Lot Nos. 687 - 690 Mukim Chembong Daerah Rembau Negeri Sembilan	Leasehold	21	27.6.2049		Factory	
7.	Lot Nos. 3857 - 3862 Jalan Perusahaan 4, Kawasan Perindustrian Chembong, Chembong Rembau, Negeri Sembilan	Leasehold	21	27.6.2049	31,941	Factory	1,472
8.	Lot No. 844, Block 7 Muara Tebas Land District Sejingkat Industrial Estate Kuching, Sarawak	Leasehold	21	19.10.2053	25,460	Factory	344
9.	Lot 915, Block 7 Muara Tebas Land District Demak Laut Industrial Park Kuching, Sarawak	Leasehold	18	12.10.2054	12,740	Factory	658
10.	Plot 46 Bemban Industrial Park Batu Gajah, Perak	Leasehold	15	7.11.2058	157,500	Vacant land	6,253
11.	Nos. 75 & 76, Jalan Playar 15/1 40200 Shah Alam Selangor	Leasehold	3	8.9.2066	40,602	Vacant premises	36,290

* Approximation of age of property in years.

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www.nestle.com.my

Summary Report **2012**

Nestlé

Creating Shared Value

Nutrition | Water | Rural Development

100 tahun Nestlé di sisimu

Inside

COVER:

One of Nestlé Malaysia's key successful rural development programmes has been its contract farming initiatives, where farmers are actively engaged to be part of the Nestlé supply chain. In February 2012, the Nestlé Paddy Club was introduced with the aim of increasing field productivity and lowering production costs, whilst reducing rice-farming's environmental footprint, as well as enhancing overall farming safety aspects at the contract farms in Kedah.

The Nestlé Legacy

Nestlé is the world's leading Food, Nutrition, Health and Wellness company, which believes that Good Food is the foundation of Good Life.

THE PRIDE OF NESTLÉ: THE 'NEST'

Henri Nestlé adopted his coat-of-arms as a trademark in 1867. Nestlé, which means 'little nest' is universally understood to represent warmth, security, nourishment, family togetherness, nurturing and caring values.

THE NESTLÉ CREATING SHARED VALUE LEGACY

In an effort to save his neighbour's child who was unable to accept his mother's breast milk, Swiss pharmacist and Nestlé founder – Henri Nestlé – developed the world's first milk food for infants. Aimed at combating the problem of mortality due to malnutrition, the product was well received in Europe and this marked the beginning of the Nestlé Creating Shared Value legacy, which today is embedded within our values and corporate business principles. More than 140 years on, Nestlé is the world's leading Food, Nutrition, Health and Wellness company; committed towards building a business based on sound human values and principles.

Nestlé

Good Food, Good Life

...captures the very essence
of Nestlé and the promise
we commit ourselves to
everyday, everywhere
as the leading Nutrition,
Health and Wellness company.

THE MEANING OF GOOD FOOD, GOOD LIFE

Insufficient access to good food could result in nutritional deficiencies, malnutrition and other complex issues, which is why Nestlé believes that Good Food is the foundation of Good Life. In addition to being the recognised Food, Nutrition, Health and Wellness company, Nestlé also aims to be the reference for financial performance and trusted by all the stakeholders.

Message to Stakeholders

Creating Shared Value (CSV) is at the core of our business. That is how our company started off, with our founder, Henri Nestlé, a Swiss pharmacist who developed the world's first milk food for infants in an effort to save his neighbour's child who was unable to accept the mother's breast milk. And that is our guiding principle today. Extending beyond compliance and sustainability, our CSV philosophy aims to continuously create shared benefits for society and our shareholders.

2012 has been a milestone year as we celebrated our 100 years anniversary in Malaysia and in conjunction with that, not only did we execute celebratory events, but we also embarked on several key initiatives that are aligned with our three Creating Shared Value pillars – Nutrition, Water and Rural Development. These initiatives address the Group's main challenges such as meeting the nutrition needs of our consumers, addressing the global water crisis, improving our environmental performance and also supporting sustainable palm oil, for the next three to five years.

In February, we started a new initiative – the Nestlé Paddy Club (NPC) – to help minimise water usage in rice farming, reduce the environmental footprint and provide our company with fully traceable and high quality rice for our cereal production. Launched in Kedah, the initiative also helped to increase the farmers' income through yield improvement and pesticide cost reduction. Since the launch, NPC has grown tremendously and within 10 months reached a total of 289 farmers, covering 784 hectares of land with a harvested yield of 6.8 MT/hectare, which is 50% higher than the previous harvest.

As for Nestlé Project RiLeaf, we have surpassed our goal for 2012, of planting a minimum of 100,000 trees along the 150km stretch of the lower Kinabatangan River in Sabah. This three-year riverside reforestation initiative aims to create an environment where people, nature and agriculture (palm oil) can harmoniously co-exist in their need for water. 2013 will see an acceleration of the tree planting combined with incremental support for palm oil small holders.

In 2012, Nestlé Malaysia launched its '*Program Cara Hidup Sihat*', a longitudinal intervention programme to improve the knowledge and practice of healthy lifestyles involving secondary school students from 100 day boarding schools. The initiative is implemented in collaboration with the Ministry of Education (MOE) and Universiti Putra Malaysia (UPM). Furthermore, we continued our Nestlé Healthy Kids (NHK) programme in cooperation with the Nutrition Society of Malaysia (NSM), which is a three-year intervention programme to improve knowledge, attitude and practices on nutrition and healthy lifestyles among primary schoolchildren.

However, farmers under the Sarawak Traditional Red Rice (TRR) contract-farming initiative faced some challenges, as it remained under a consolidation phase for most of 2012 due to technicalities affecting the quality of rice.

Our seventh stand-alone CSV Report covers CSV activities and initiatives embedded in the operations of the Nestlé (Malaysia) Berhad and its subsidiaries* – Nestlé Products Sdn. Bhd. and Nestlé Manufacturing Sdn. Bhd., for the year ended 31 December 2012, unless otherwise stated.

Once again, we engaged Bureau Veritas Certification to check our Report in accordance with the Global Reporting Initiative (GRI) 3.0 standards and the internationally recognised AA1000 Assurance Standard (2008), set by AccountAbility. AA1000AS is a generally applicable standard for assessing, attesting to and strengthening the credibility and quality of an organisation's sustainability reporting and their underlying processes and competencies. It provides guidance on key elements of the assurance process.

To help us further improve ourselves, we encourage and welcome your feedback and comments. You can find our contact details at the end of this Report. We thank you for your continuous support for the past century. Nestlé is committed to be by your side for the next 100 years and beyond.

For more detailed reporting on our Creating Shared Value initiatives, the full version of the Creating Shared Value 2012 Report can be viewed online at www.nestle.com.my/CSV.

Tan Sri Dato' Seri Syed Zainol Anwar Jamalulail
Chairman of the Board of Directors

Peter Vogt
Managing Director

Nestlé Malaysia executed celebratory events and embarked on several key initiatives that are aligned with its three Creating Shared Value pillars, in conjunction with its 100 years anniversary in the country.

* Manufacturing facilities in Shah Alam, Petaling Jaya, Batu Tiga, Chembong and Kuching; Sales Offices for the Central, Northern, Southern, East Coast regions, Sabah and Sarawak; National Distribution Centre in Bukit Raja, Selangor and Head Office in Mutiara Damansara, Selangor

In 2012, Nestlé Paddy Club achieved a harvested yield of 6.8 MT/hectare, which is 50% higher than the previous harvest

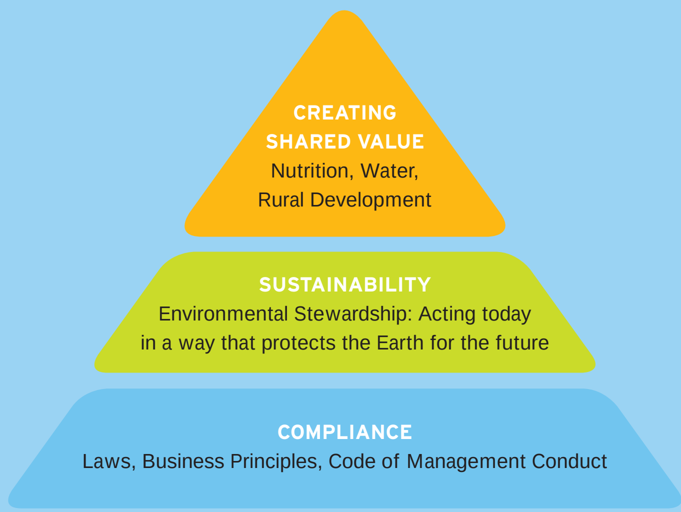
More than 100,000 trees were planted along the lower Kinabatangan River in Sabah

Nestlé Malaysia Chairman, Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail handing over a Nestlé Nutritious Mealbox to a charity home representative.

[From left to right] Mr. Peter Vogt (Managing Director, Nestlé Malaysia), Yang Berbahagia Datuk Zoal Azha bin Yusof (Secretary General, Ministry of Natural Resources and Environment) and Yang Berbahagia Dato' Dr. Abdul Latif Mohmod (Director-General of FRIM) at the Nestlé Project RiLeaf celebratory event at FRIM.

The Nestlé Creating Shared Value Strategy

At Nestlé, we believe that in order to create long-term value for our shareholders, we must create value for our society, subscribing to the view that corporate success and social welfare are interdependent. The Company focuses on three areas of greatest potential for joint value creation with society: Nutrition, Water and Rural Development. These areas are core to our business strategy and operations.



THE NESTLÉ CREATING SHARED VALUE MODEL

We must also comply with our Corporate Business Principles to ensure that shared value is created at each stage of our value chain, which begins from the moment we source for raw materials up to the point where the product is manufactured and made available for our consumers.

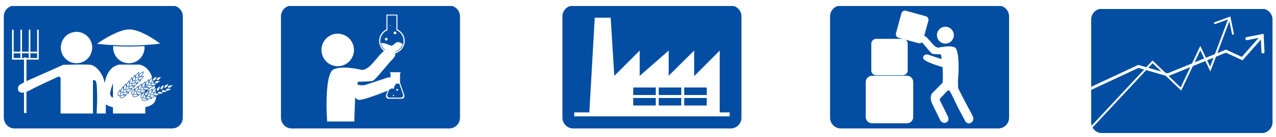
NUTRITION

Food and nutrition are the basis of health and of our business.

WATER

The ongoing quality and availability of it is critical to life, the production of food and to our operations.

Creating Shared Value at Each Stage of the Value Chain



	Expertise and support for farmers	Providing R&D and expertise for suppliers	Investing in local manufacturing plants	Building brands through responsible marketing	Increasing value and volume sales
Value for Nestlé	Securing supplies of high quality raw materials	Improving community relationships and product quality	Lowering manufacturing and distribution costs	Entering new and emerging markets	Achieving competitive shareholder returns
Value for Society	Improved yields and increased incomes	Reducing consumption of natural resources	Creating jobs in local communities	Widening access to nutritional products that consumers prefer	Generating local investments and economic growth

RURAL DEVELOPMENT

The overall wellbeing of the farmers, rural communities, workers, small entrepreneurs and suppliers are intrinsic to our ability to continue with our business in the future.

There are many examples of how we create value for the Malaysian community, which are available in our CSV Report, segmented into four areas, in line with Bursa Malaysia's requirements:

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**

Fast Facts

The Nestlé Group

- Founded in 1866 by Henri Nestlé.
- World's largest food manufacturer, with headquarters in Vevey, Switzerland.
- Operations in more than 150 countries.
- Employs over 339,000 people worldwide.
- 468 factories in 86 countries.
- Over 1 billion products sold every day representing over 2,000 global and local brands.
- World's largest private nutrition research capability based in Switzerland.
- 32 R&D and Technology Centres worldwide.
- RM5.16 billion global investment in R&D.

Nestlé Malaysia

- Established in Malaysia since 1912.
- Biggest halal producer in the Nestlé world and the Halal Centre of Excellence for the Nestlé Group.
- Employs more than 5,000 people.
- Produces over 500 halal products.
- Turnover for Nestlé Malaysia - RM4.6 billion in 2012.
- Public listed on Bursa Malaysia since 1989.
- Head Office in Mutiara Damansara, Selangor.
- 7 factories.
- 1 National Distribution Centre.

Categories of Products in Malaysia

- Coffee and Beverages
- Food
- Milks
- Liquid Drinks
- Infant Nutrition
- Breakfast Cereals
- Chilled Dairy
- Ice Cream
- Confectionery
- HealthCare Nutrition
- Performance Nutrition
- Nestlé Professional

Governance

In 2011, Nestlé Malaysia formed a Creating Shared Value Council to ensure that Creating Shared Value is present across all categories and operations. The Council consists of representatives from all the Business Units and Support Functions, and is headed by the Group Corporate Affairs Department (GCAD).

Creating Shared Value (CSV) is an integral part of how we conduct our business and is embedded in our operations. It is our business strategy, which states that we must not only create value for our shareholders but for society as well. The goal is to create shared value as a company such that our activities and initiatives will, directly or indirectly, have a value proposition for the Company and society in general.

GLOBAL DEVELOPMENT OF CSV

At the global level, there is the Nestlé CSV Advisory Board that provides the Company with a diversity of informed ideas, recommendations and feedback, which will help to ensure sound development, sustainability and positive social and economic impact of the CSV business strategy.

Meeting twice a year to further develop the CSV concept, the Advisory Board is composed of world leading experts in the areas of corporate strategy, Nutrition, Water and Rural Development. These experts also analyse the Nestlé value chain, suggest potential actions and participates in the annual CSV Forum. Ideas and recommendations are then communicated to Nestlé S. A., who will then cascade them down to the various Nestlé markets for implementation.

For the list of experts that sit on the Advisory Board, go to: www.nestle.com/csv/Nestle/CSVAdvisoryBoard/Pages/CSVAdvisoryBoard.aspx

LOCAL IMPLEMENTATION OF CSV

In 2011, Nestlé Malaysia formed a CSV Council to ensure that CSV is present across all categories and operations. The Council consists of representatives from all the Business Units and Support Functions, and is headed by the Group Corporate Affairs Department (GCAD).

The representatives – called CSV Champions – are responsible for ensuring that all activities carried out are in line with the Company's policies on sustainability and CSV. They are expected to take the lead in mapping out their Units' CSV initiatives. They also serve as Global Reporting Initiative (GRI) Champions, and are responsible for monitoring the activities and the measurements required, as well as ensuring that proper reporting procedures are followed based on the GRI reporting standards and guidelines.

DEVELOPMENT OF CSV STRATEGY GLOBALLY AND HOW IT IS ROLLED OUT IN MALAYSIA

Nestlé CSV Advisory Board	Nestlé S.A.	Group Corporate Affairs Nestlé Malaysia	CSV Council	Business Units/Support Functions
Recommends and advises on CSV strategy	Receives advise and approves recommendations	Leads implementation of CSV strategy in Malaysia	Ensures CSV is present across all categories and brand operations in Malaysia	Implements CSV initiatives in Malaysia

HOW CSV IS EMBEDDED IN THE BUSINESS AND SHARED WITH THE TOP MANAGEMENT IN NESTLÉ MALAYSIA

CSV Plans by Business Units	How is CSV embedded in the business and shared with the top management?	
		Marketing Business Strategy is developed once every three years by each Business Unit. These plans are shared with Nestlé S.A.. Once these plans are finalised by each Business Unit, they are then executed by the **Business Unit** and monitored by the **Business Executive Managers (BEMs).**
		The plans are updated among the 'Nestlé In The Market Committee' (NimCom) members during their meeting, every quarter.

Engaging Our Stakeholders

The convening session provided us with the opportunity to engage better with our key stakeholders.

It was agreed that neutralising the threat of Non-Communicable Diseases requires a continuous joint effort between all parties, in terms of education, awareness and product offerings.

On 26 June 2012, Nestlé hosted a convening session to engage with key stakeholders to discuss issues relating to the three Nestlé CSV pillars - Nutrition, Water and Rural Development - and to update them on current Nestlé CSV activities.

The session was attended by Nestlé's key stakeholders representing Non-Governmental Organisations (NGOs) and government bodies, from various sectors such as Corporate Governance, Environment, Sustainable Development, Nutrition & Health and Consumers Issues.

The convening session was slightly different from previous ones, as this time around stakeholders were given the opportunity to propose topics of discussion prior to the session. With their feedback, the convening session focussed solely on the Nutrition & Health pillar, as it was felt that with the growing threat of Non-Communicable Diseases (NCD) in Malaysia, it was imperative to discuss ways to combat it.

It was agreed that neutralising the threat of Non-Communicable Diseases requires a continuous joint effort between all parties, in terms of education, awareness and product offerings.

The following is a summary of what was discussed at the Stakeholder Convening Session:

Topic	Issues Highlighted	Stakeholder Recommendations (that affect Nestlé)	Action Plans by Nestlé
Nutrition & Health	Growing threat of NCD	Industry to run campaigns that: - educate consumers on how to read product labels, at point of purchase - encourage consumers to ask for products with less sugar contents at public places, such as restaurants and stalls. Industry to measure the effectiveness of campaigns through awareness and actual behavioural changes.	• Continue to educate consumers on how to read product labels. • Embark on the MILO Kosong Campaign, where the public is encouraged to ask for no sugar to be added in their drink at *mamak* shops.
		Industry to educate consumers and increase awareness that being overweight and obese are serious health problems that can lead to other chronic diseases. Industry to educate the various target groups with relevant messages: - young people and parents: healthier eating habits and active lifestyles, - teachers: to lead by example, - canteen operators: to prepare healthier food options for students, without compromising on taste.	• Collaborate with the Ministry of Education (MOE) to implement the *'Program Cara Hidup Sihat'*. • Continue to educate primary school-going children on healthy eating/ lifestyle via the Nestlé Healthy Kids Programme. • Explore ways to reach out to canteen operators, in collaboration with the MOE. • Engage with the members of media to inform them of the current health issues in Malaysia and the importance of healthy living, so they can communicate the messages to the public.
		Industry to produce: - healthier on-the-go products, - more products with low sugar content (for children), or with sugar replacer (for adults), - more products that are suitable for those suffering from NCD.	• Continue with product innovation and renovation to develop healthier products, i.e. with less sugar, fat or sodium, especially for on-the-go products. • Promote NCD-related products i.e. OMEGA (for heart), NUTREN (for diabetes).
		Government, NGOs and industry to work together to develop long term sustainable and multi-sectoral campaigns, which take into consideration the cultural, racial, traditional and habitual aspects of the target audience.	• Continue collaboration with the government and NGOs, such as Ministry of Health (MOH) and Nutrition Society of Malaysia, to promote nutrition, health and wellness. • Enlist support from MOH, and health-related NGO's for advertising campaigns to strengthen nutrition and health positioning.

Summary of Key Performance Data

In line with the Global Reporting Initiative, we have included a set of economic indicators in this year's CSV Report:

	GRI Reference	2010	2011	2012
The Marketplace				
NUTRITION				
Products meeting or exceeding Nutritional Foundation profiling criteria (as % of sales)	N/A	74%	78%	78%
Products meeting or exceeding consumer taste preference (as % of sales)		81%	78%	80%
Products with nutritional plus over competitors (as % of sales)		54%	54%	52%
Products with a nutritional claim on front of pack		64%	68%	67%
Products covered with NESTLÉ NUTRITIONAL COMPASS (as % of sales)		100%	100%	100%
Products with GDA labelling (as % of sales)		57%	69%	98%
Our Environmental Footprint				
Total energy (GJ)		1,468,295	1,501,802	1,479,099
Total amount of energy per tonne (GJ/tonne)	EN5	4.39	4.13	3.94
Total direct and indirect greenhouse gas emissions (tonne CO_2)	EN16	131,078	134,344	137,125
Total water withdrawal by source (m^3/year)	EN8	1,693,229	1,802,451	1,734,455
Volume of water recycled per reused (m^3/year)	EN10	N/A	19,278	80,710
Landfill waste (tonne)		2,472	2,386	4,698*
Materials recycled (tonne)		N/A	7,091	11,561
Our People				
Workforce – Full Time Equivalent Employees	LA1	5,004	5,424	5,881
Lost Time Injury Frequency Rate	LA7	0.78	1.16	1.22
Leadership positions held by women	LA13	23%	29%	42%
Employee turnover	LA2	8%	6%	5.6%

* Note: Sludge waste is included in landfill waste for 2012 reporting

	GRI Reference	2010	2011	2012
Our Community				
Potential number of children impacted from Nestlé - Raleigh Kindergarten project	#	50	60	71
Number of PEWANIS members impacted from the Setiu Wetlands Project with WWF-Malaysia (active & non-active)		13	33	13
Number of camps launched under the ‘MILO PLAY MORE LEARN MORE’ campaign		6	12	12
Number of registered participants who took part in the World Walking Day event		12,500	18,477	27,336
Number of farmers impacted from the Nestlé Paddy Club, Kedah		N/A	105	289
NESTLÉ EMPLOYEE VOLUNTEER PROGRAMME (ROCKS)				
Total number of volunteers participating in activities (employees & non-employees)		72	247	221
Number of hours (total)		393.5	592.5	1,193
Economic				
OPERATIONAL FOOTPRINT				
Number of total factories	#	7	7	7
VALUE GENERATION (RM’000)				
MY total sales	EC1	RM4,026,319	RM4,246,744	RM4,556,423
VALUE DISTRIBUTION (RM’000)	EC1			
Turnover		RM4,026,319	RM4,246,744	RM4,556,423
Operating costs		RM856,801	RM804,781	RM896,309
Taxes		RM74,346	RM131,681	RM132,316
Net profit		RM391,398	RM427,128	RM505,352
Earnings per share (sen) [1]		166.91	182.14	215.50
Net dividends per share (sen)		165.00	180.00	210.00
Dividend yield		3.8%	3.2%	3.3%

[1] Earnings per share are based on profit after tax

Nestlé-specific indicators

Aimed at raising awareness on the benefits of a healthy lifestyle amongst primary school children in Malaysia, our Nestlé Healthy Kids programme is currently in its second year which focuses on educating the children on making informed choices when it comes to food consumption.

A total average of

14,792 visitors

experienced the 7th Nestlé Nourishing Malaysia Showcase in April 2012.

27,336 registered walkers

participated in this year's World Walking Day event.

332 food operators

were trained under the '*Program Cara Hidup Sihat'*.

For more detailed reporting on 'Our Respect and Care for the Community' initiatives, please view the full version of our Creating Shared Value Report 2012 at

www.nestle.com.my/CSV

Our Respect and Care for the Community

At Nestlé, we believe that Good Food is the foundation of Good Life. One of the three focus areas of our Creating Shared Value philosophy is Nutrition, because food is the basis of health and our business.

As the leading Food, Nutrition, Health and Wellness company, we are committed to produce healthy, tasty and nutritious food. In addition, we also aim to create a thriving and sustainable society by addressing health-related issues and promoting healthy eating and lifestyles.

THE NESTLÉ HEALTHY KIDS PROGRAMME

The Nestlé Healthy Kids programme was launched in August 2010 with the objective of raising awareness on the benefits of a healthy lifestyle amongst primary school children in Malaysia. Implemented in collaboration with the Nutrition Society of Malaysia (NSM), the three-year programme is made out of two components, namely an interactive awareness campaign and also a longitudinal intervention programme. Other activities include workshops for parents, as well as a teachers' seminar.

Also developed was the Nestlé Healthy Kids programme website, which contains educational tools and interactive games to educate both parents and children about healthy eating and active lifestyle. To further enhance the website, not only did Nestlé updated it with new content and interactive applications, Nestlé also integrated the Search Engine Optimisation (SEO) process to increase the website's traffic, making it easier for consumers to access and find information on nutrition, health and wellness that is specifically related to kids.

FROM LEFT:

The Nestlé Healthy Kids website is now updated with new content and interactive applications.

Students of SK Kg Tunku are geared up to start their second year of the intervention programme.

Nestlé ROCKers raised a total of

RM20,510,

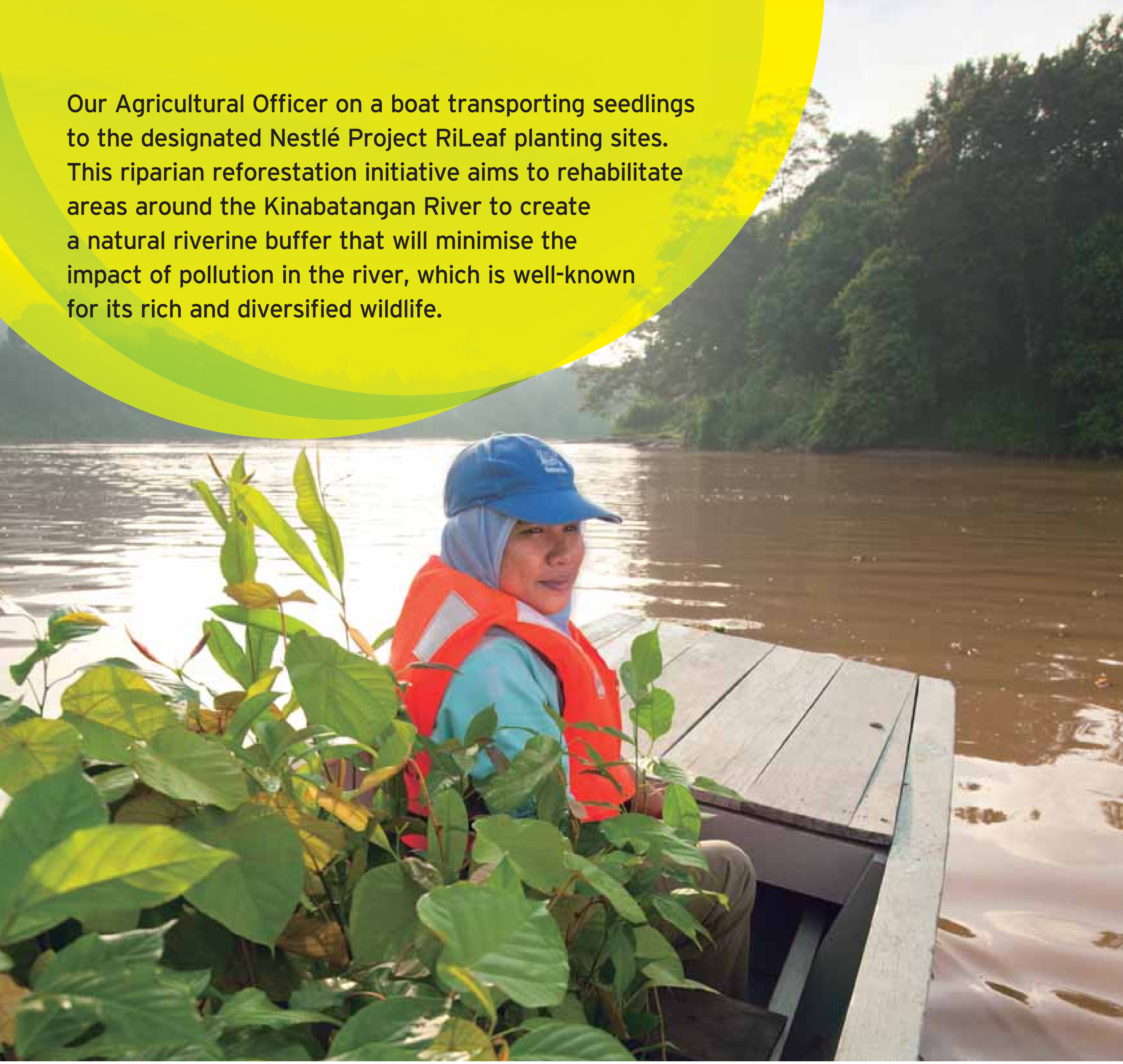
enabling the purchase of hospital mattresses, commodes and bedding sets for Tong Sim Senior Citizen Care Centre.

The number of Nestlé Healthy Kids website page views increased to

182,896

in 2012.

Our Agricultural Officer on a boat transporting seedlings to the designated Nestlé Project RiLeaf planting sites. This riparian reforestation initiative aims to rehabilitate areas around the Kinabatangan River to create a natural riverine buffer that will minimise the impact of pollution in the river, which is well-known for its rich and diversified wildlife.



Nestlé Paddy Club has a membership of

289 farmers

cultivating over 784 hectares, with an average yield of 6.8 metric tonne per hectare.

In 2012, Nestlé Malaysia successfully planted more than

100,000 trees

along the Lower Kinabatangan River in Sabah as part of the Nestlé Project RiLeaf.

Our Commitment to the Environment

For more detailed reporting on 'Our Commitment to the Environment' initiatives, please view the full version of our Creating Shared Value Report 2012 at

www.nestle.com.my/CSV

The Nestlé Project RiLeaf is a three-year riverside reforestation initiative that aims to create a landscape where people, nature and agriculture (palm oil) can co-exist harmoniously in their need for water.

University Malaysia Sabah was commissioned by Nestlé to conduct a scientific research to validate and verify novel microbial approaches to palm oil planting.

The project, which focuses on the reforestation of 2,400ha of land along the lower Kinabatangan River, will leverage on the commercial agriculture experience and expertise of Nestlé to speed up reforestation and increase the durability of indigenous forest seedlings. The restored zone will form a corridor for wildlife to thrive and move about, thereby reducing human-wildlife conflict in the process.

The initiative will also have an active role in palm oil sustainability, reducing the environmental impact of palm oil plantings through minimisation of chemical fertilizers, as well as "back-to-basic" Good Agricultural Practices.

Furthermore, to mark the Company's 100th year anniversary, Nestlé made a commitment to plant a minimum of 100,000 trees along the lower Kinabatangan River, which was achieved within a year, from the time the project was launched.

Nestlé relies on local service providers to manage the transportation, replanting, monitoring and maintenance of the riverside-planted seedlings.

Nestlé Project RiLeaf provides the KAPOK (Komunity Anak Pokok Kinabatangan) with additional income and the opportunity to participate in this unique reforestation initiative.

We achieved savings of **6.7%** of specific water usage, surpassing the target of 4%.

In 2012, we recorded savings of **4.5%** of energy usage per tonne product.

Nestlé SUPERMEET strengthens teamwork, encourages fair and friendly competition among employees, and also provides social and networking opportunities.

A total budget of

RM14.5 million

was allocated for in-house and external training programmes.

325 employees

participated in the SHE Day Celebration, which was themed 'Safety Begins with Me'.

Our People and the Workplace

For more detailed reporting on 'Our People and the Workplace' initiatives, please view the full version of our Creating Shared Value Report 2012 at

www.nestle.com.my/CSV

People are an organisation's most important asset, as without them, strategies could not be executed effectively. Their contribution helps companies fulfill their corporate responsibility obligations towards other stakeholders and the environment.

At Nestlé, we continuously ensure that we attract and retain the best talents who can contribute to the success of our business. Throughout the year, we have conducted several activities in the areas of human resource training, employee surveys and team building.

Participants in a role-playing activity at the Nestlé Everyday Coaching training session.

EVERYDAY COACHING PROGRAMME

The development of our people is an integral part of our business success and Nestlé believes that each employee should have the opportunity to develop to the maximum of his or her potential.

The Everyday Coaching Programme was introduced in 2011 to develop a coaching culture within the organisation, whereby employees will be assisted to realise their full potential to achieve their professional and personal goals by equipping them with the right know-how, tools and opportunities.

The programme has three separate components:

1. **Certified Master Performance Coach**
   To train selected individuals and create a pool of senior coaches to conduct formal coaching within the organisation.

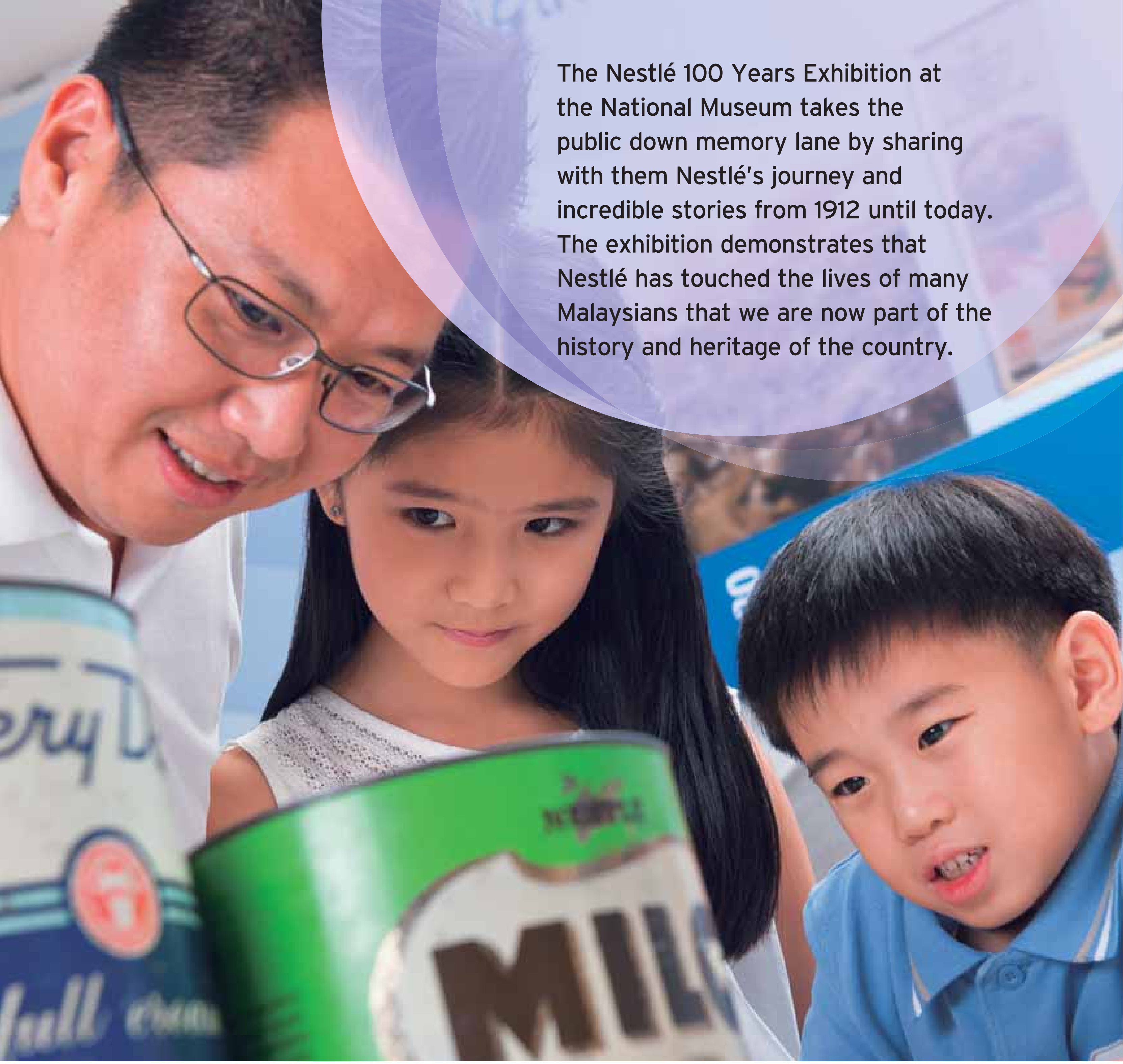
2. **Everyday Coaching Train the Trainer**
   To build up the number of internal trainers to conduct training on Everyday Coaching awareness programmes.

3. **Everyday Coaching Awareness Training**
   To create a coaching culture within the organisation by training management to identify training requirements of their staff and to impart the relevant knowledge.

One of the key ongoing Human Resource training programmes include the Everyday Coaching Train the Trainer module.

Nestlé SUPERMEET 2012 saw the participation of
1,283 employees
from Malaysia and Singapore.

As at 31 October 2012, a total of
1,129 management staff
had undergone the Everyday Coaching Awareness Training session.



The Nestlé 100 Years Exhibition at the National Museum takes the public down memory lane by sharing with them Nestlé's journey and incredible stories from 1912 until today. The exhibition demonstrates that Nestlé has touched the lives of many Malaysians that we are now part of the history and heritage of the country.

10,000 breakfast were provided through the MILO Nutrition Movement.

Projek TUKAR sponsored **125** signages.

The 100 Years Campaign saw the distribution of **8,971** Nestlé Nutritious Mealboxes.

Our Consumers and the Marketplace

For more detailed reporting on 'Our Consumers and the Marketplace' initiatives, please view the full version of our Creating Shared Value Report 2012 at

www.nestle.com.my/CSV

Our consumers are at the heart of what we do. With the rise in the incidences of non-communicable diseases (NCD) in Malaysia[1], we have dedicated ourselves to continuously innovate and renovate our products to produce healthier and tastier food and beverages, as we strongly believe that it is our responsibility to do so.

We also run initiatives that promote healthy eating and active living, as well as spread health messages to our consumers through our brands, such as MILO.

Every child needs to consume the right balance of nutrition and energy in their daily diet.

In addition to that, we also engage with other stakeholders through programmes where we share our knowledge and best practices with them.

A 100 YEARS OF CREATING SHARED VALUE

2012 was a milestone year for Nestlé Malaysia as it marked the Company's 100th year anniversary. In line with this, we organised several events throughout 2012, to thank consumers for their support and to strengthen brand relationships with them.

The main launch of the centenary celebrations was held at Dataran Merdeka, Kuala Lumpur on 18 March 2012, and was graced by HRH Sultan Sharafuddin Idris Shah Al-Haj, the Sultan of Selangor.

From left: Tan Sri Dato' Seri Syed Zainol Anwar Jamalullail, Chairman of Nestlé Malaysia; Mr. Paul Bulcke, Chief Executive Officer of Nestlé S.A.; HRH Sultan Sharafuddin Idris Shah Al-Haj, the Sultan of Salangor; YB. Dato' Sri Mustapa Mohamed, Minister of the Ministry of International Trade and Industry; Nandu Nandkishore, Execuitve Vice President of Nestlé S.A., in charge of Zone Asia, Oceania, Africa and Middle East and Mr. Peter Vogt, Managing Director of Nestlé Malaysia placing the last six of the mealboxes thatwere arranged to make the Malaysian flag at the launch of Nestlé 100 Years Celebration at Dataran Merdeka.

As part of the day's activities, members of the public were invited to help pack 5,210 Nestlé Nutritious Mealboxes that were distributed to various homes and charities throughout the year.

In addition to these celebratory activities, we have successfully planted over 100,000 trees along the Kinabatangan River in 2012, through Nestlé Project RiLeaf[2]. We also launched '*Program Cara Hidup Sihat*', which is aimed at enhancing the knowledge and practice of healthy and active lifestyles, targeted at 100 day boarding schools nationwide.

1 See www.mmail.com.my/story/607-Malaysians-unhealthy

2 Please see page 15, on Nestlé Project RiLeaf

21,270 people visited the Nestlé 100 Years Exhibition at the National Museum.

12,000 people attended the Nestlé 100 Years official launch ceremony held at Dataran Merdeka.

The Nestlé Incredible Stories contest received **108,350** submissions.

Awards & Achievements

PUTRA BRAND AWARDS 2012

The Putra Brand Awards was held on 24th April 2012. Introduced as an extension of Malaysia's Most Valuable Brands (MMVB), the award recognises brand building as an integral business investment. The winning brands were selected based on consumer preferences that were gauged through a consumer research that involved 6,000 participants who determined the nation's favourite brands within 20 categories. This year, bagging up the Gold and Silver awards under the Non-Alcoholic Beverage Category were MILO and NESCAFÉ respectively; and the NESTLÉ Breakfast Cereals, the Silver Award under the Foodstuff Category.

THE EDGE BILLION RINGGIT CLUB 2012

Established by Malaysia's leading business and investment weekly, The Edge Billion Ringgit Club recognises outstanding listed companies in various sectors such as market capitalisation, construction, consumer products, finance and many more. Nestlé Malaysia was one of the 18 companies that performed well by coming in first in Best CSR Initiatives Category. The awards were presented by Y. B. Datuk Seri Idris Jala, Minister in the Prime Minister's Department and CEO of the Performance Management and Delivery Unit (Pemandu).

NATIONAL ANNUAL CORPORATE REPORT AWARDS (NACRA)

The National Annual Corporate Report Awards (NACRA) is a collaborative effort between Bursa Malaysia Berhad, Malaysian Institute of Accountants (MIA) and The Malaysian Institute of Certified Public Accountants (MICPA). The annual award presentation was held on 1st November 2012 to recognise excellence in the quality of corporate, financial and Corporate Social Responsibility reporting. This year, Nestlé Malaysia was awarded the Platinum Award under the Best CSR Report 2012 category. The award was presented by Domestic Trade, Co-operatives and Consumerism Minister, Y. B. Datuk Seri Ismail Sabri Yaakob.

THE EFFIE AWARDS MALAYSIA 2012

Jointly organised by the Malaysian Advertising Association (MAA), Association of Accredited Advertising Agents Malaysia (4As), Media Specialists Association (MSA) and the Malaysia External Trade Development Corporation (MATRADE), the Effie Awards recognises effective marketing campaigns. Successfully meeting all marketing disciplines, the MILO Redemption Campaign was awarded the Silver Award for the Beverages/ Non-Alcoholic Category.

MALAYSIAN BOOK OF RECORDS

In an effort to encourage private sectors to play its role in nation building towards Vision 2020, Malaysian Book of Records (MBR) is an official body that recognises, acknowledges and certifies the country's record holders, breakers and creators. One of the attractions at the Nestlé 100 Years Celebration was the painting of the biggest 3-D canvas by a group of SAITO students, which earned a place in the MBR. The concept of the painting captured the consumers' interaction with Nestlé products in the last 100 years.

INDEPENDENT ASSURANCE REPORT

A copy of the Independent Assurance Report issued by
Bureau Veritas Certification [M] Sdn. Bhd. [620271-V] is available upon request.

Please also visit our website **http://www.nestle.com.my** for the full version of Creating Shared Value 2012 report.

BY ORDER OF THE BOARD

MOHD. SHAH BIN HASHIM
Company Secretary
[LS 0006824]

Petaling Jaya
9 April 2013

NESTLÉ CONTACT DETAILS

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Visit our Facebook page at	:	**http://www.facebook.com/NestleMalaysia**
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100 tahun Nestlé di sisimu®

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