Nestlé

Good Food, Good Life

SHARE

CORPORATE GOVERNANCE &
FINANCIAL REPORT 2015

What's Inside

Corporate Governance Statement

"We are what we repeatedly do; excellence, then, is not an act, but a habit"
– Aristotle

Nestlé pursues a strategy of best practice of corporate governance in order to excel and continue to nourish and enhance the lives of Malaysians for generations to come. We believe that compliance builds trust. It forms the base of how we do business and is the first layer of how we create shared value. Hence, excellence in corporate governance remains the commitment of Nestlé (Malaysia) Berhad ("Company") and its Board of Directors ("Board"). The Board firmly believes that it is important for the Company and its subsidiaries ("Group") to strictly adhere to the doctrine and principles of good corporate governance such as integrity, transparency, accountability and responsible business conduct, which must be supported by a comprehensive framework of policies, guidelines and internal controls. This philosophy is expected to be embraced by all employees and practiced in their day to day activities.

The Group's corporate governance framework is built on the following requirements and guidelines:

- the principles and recommendations of the Malaysian Code on Corporate Governance 2012 ("MCCG") issued by the Securities Commission Malaysia;
- the corporate governance requirements of the Main Market Listing Requirements ("Listing Requirements") of Bursa Malaysia Securities Berhad ("Bursa");
- Corporate Governance Guide: Towards Boardroom Excellence, 2nd Edition issued by Bursa;
- Corporate Disclosure Guide by Bursa Securities;
- the business principles and values entrenched in the Nestlé Corporate Business Principles and the Nestlé Code of Business Conduct.

This Corporate Governance Statement ("Statement") sets out the manner in which the Group has applied its corporate governance framework, in particular, the principles and recommendations articulated in the MCCG, during the financial year ended 31 December 2015. The Board approved this Statement on 3 March 2016 and believes that it has in all material aspects complied with the principles and recommendations outlined in the MCCG.

1. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

i. Terms of Reference

The Board's Terms of Reference serves as a guide for good corporate governance practices within the Company. It clearly set out the framework of functions, roles, responsibilities, and processes of the Board. This is to ensure there is a clear separation of function between the Board and the Management.

In order to ensure the continuous relevance of the Terms of Reference, the Board conducts periodic review of the Terms of Reference when necessary. The Terms of Reference was last reviewed on 23 February 2016 and are available to the public on the Company's website.

ii. Role and Responsibilities of the Board of Directors

The Board must ensure that the Directors are aware of their roles and responsibilities as outlined by the Terms of Reference, which also serve as a clear source of reference to all stakeholders. The Board must ensure that they are not in any position of conflicts.

The principal responsibilities of the Board are as follows:

- review and adopt the strategic plan for the Group, including address the Group's business strategies on promoting sustainability and setting the goal;
- approve management proposal of monitoring the implementation of strategic plan by management;
- review and evaluate key policies adopted by the Company;
- oversee the conduct of the Group's business and operations, and evaluate whether its businesses are being properly managed;
- identify principal business risks faced by the Group and ensure the implementation of appropriate internal controls and mitigating measures to address such risks;
- provides leadership to enable the Company's business objectives to be met within the framework of internal controls as described herein;
- ensure that all candidates appointed to the Board are of sufficient calibre, including having in place a process to provide for the orderly succession of the members of the Board and diversity (including gender diversity);
- establish Board committees and be responsible for all decisions made by the committees;
- oversee the development and implementation of an investor relations programme and stakeholder communications policy;
- review 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 on a quarterly basis;
- deliberate on proposals presented and recommended, including those proposed by its committees on a quarterly basis; and
- review the updates from Creating Shared Value ("CSV") Council on the Company's corporate social responsibilities and sustainability initiatives on a quarterly basis.

The Board also assumes the following functions:

- reviewing the Company's performance on a quarterly basis;
- receiving updates on various business operations from the Management;
- bringing independent judgment and scrutiny to decisions taken by the Board and providing objective challenges to the Management;
- approving the declaration of dividends and approval of financial statements, including accounting policies of the Group.

There is a schedule of key matters reserved for the Board for its deliberation and decision to ensure the direction and control of the Group's businesses are in its hands. Key matters reserved for the Board for decision comprise of the following:

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

Process of the Board

The Board is chaired by an Independent, Non-Executive Director and the Board meets at least four (4) times a year scheduled in every quarter. If required, additional meetings will be scheduled. The quorum for the Board meeting shall be at least four (4) members present at the meeting.

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To assist in the discharge of its stewardship role, the Board has established Board Committees, namely the Audit Committee, Nomination Committee and Compensation Committee and delegates some of its responsibilities to the Committees. 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.

The Company Secretary of the Company acts as the Secretary of the Board who shall be in attendance and shall record the proceedings of the meeting. The Board may invite any employee of the Company to attend its meetings. It also has access to any form of independent professional advice, information and the advice and services of the Company Secretary, if and when required in carrying out its functions.

All deliberations and decisions taken by the Board Committees are documented and approved by the respective Chairman of the Committees. The report and recommendation of the Board Committees are included as agenda items for deliberation at the meetings of the Board. The ultimate responsibility for decision making, however, lies with the Board.

Statement of Activities for the Financial Year Ended 31 December 2015

In 2015, the Board's activities comprised the following:

- review of the Company's performance in 2014, Cumulative 2014 Results and the business outlook for 2015;
- review and approve the 2015 quarterly results, cumulative first half year results for 2015 and the Profit and Dividend (if any) announcements;
- approve the Directors' Report and Audited Accounts for the financial year ended 31 December 2014;
- approve the reports of the Audit, Nomination and Compensation Committees and to note the minutes of the Board Committees meetings on a quarterly basis;
- approve the Board, the Audit Committee, Nomination Committee and Compensation Committee Reports and revised Terms of Reference of the Board, Audit, Nomination and Compensation Committees, which are included in the Annual Report;
- review the Company's strategies and plans;
- review quarterly reports from the Executive Directors on the progress of the business;
- receive quarterly reports from the Managing Director on significant changes in the business and the external environment, which affects the operations;
- approve the General Budget and Capital Expenditure budget;
- review the risk management framework of the Company and update on management of major business risks by the Company on a quarterly basis;
- approve the re-appointment of the Group's external auditors and ensure that the external auditors meet the criteria provided by Paragraph 15.21 of the Listing Requirements;
- approve the Annual Report 2014;
- approve the draft Circular to Shareholders in relation to the proposed Renewal of Shareholders' Mandates for Recurrent Related Party Transactions of revenue or trading nature;
- review the succession planning of the Company and the succession planning policy;
- note the semi-annual returns of the Company;
- note the amendments to the Bursa Malaysia Listing Requirements;
- receive updates in relation to the quarterly analyst briefings;
- review of agenda for 2016; and
- review of the effectiveness of the Board meetings.

Independence

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 the Management Team. Details of the Management Team are provided on pages 44 to 49 of the Corporate Report 2015.

The Company assesses the independence of the Directors in accordance with the criteria stipulated in paragraph 1.01 of the Listing Requirement, which states that a director needs to be independent from management and free from any business or other relationship which could interfere with his independent judgment or ability to act objectively and in the best interest of the Company.

All Independent, 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. This is to ensure that they are capable of exercising judgment objectively whilst acting 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.

The Board is of the view that tenure should not form part of the independence assessment criteria, as it believes that the ability of a Director to serve effectively is dependent on his calibre, qualifications, experience and personal qualities, in particular, integrity and objectivity.

Although the Chairman has served more than nine (9) years cumulatively, the Board agreed that there are significant advantages to be gained from long-serving Directors who possess insight and knowledge of the Company's business and affairs.

Separation of Powers between the Chairman and Managing Director

There is a clear division of responsibilities between the Chairman and the Managing Director as well as specific parameters in which management decisions are made in order to ensure independence.

The division of roles and responsibilities ensures that no one individual or group dominates the decision-making process thereby safeguarding the balance of power in the Company.

The detailed explanation in this regard is provided on pages 12 to 13 of this Corporate Governance & Financial Report 2015.

Code of Ethics

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

i. Nestlé Corporate Business Principles

All employees are also guided by the Nestlé Corporate Business Principles that cover key issues that underpin compliance, sustainability and corporate social responsibilities known as Creating Shared Value, catered to fit the unique characteristics of the Group.

The Nestlé Corporate Business Principles also focus on work place practices and ethics, employee relations and employee human rights. The ten (10) principles, contained in the Nestlé Corporate Business 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).

ii. Nestlé Code of Business Conduct

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

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

The Nestlé Code of Business Conduct is premised on three (3) basic principles, which are, the avoidance of any conduct that could damage or risk the Group or its reputation, legal compliance and honesty, to place the Group's interests ahead of personal or other interests and guidance on how the Group's employees should behave.

iii. Nestlé Management and Leadership Principles

The Nestlé Management and Leadership Principles describe the culture, values and principles the Group expects from its employees to uphold as well as the attributes needed to be successful in management and leadership positions. These principles are aligned to the Nestlé Corporate Business Principles as well as the Nestlé Code of Business Conduct, in which "Leadership and

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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 from each employee and a common mindset geared towards results and performance. Achieving ongoing success requires each Nestlé manager to understand and capitalise its context based on the following principles:

- Lead to win;
- Manage for results;
- Grow talents 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 Corporate Business Principles, the Nestlé Code of Business Conduct, the Nestlé Management and Leadership Principles and other relevant internal documents are made available to employees and Directors and it can also be found on the Company's intranet whilst the Nestlé Corporate Business Principles and the Nestlé Code of Business Conduct, are also made available on the Company's corporate website at www.nestle.com.my.

Corporate Compliance

A Compliance Framework Structure

Since 2011, the Group established a Compliance Framework Structure with a two-tier committee structure, namely the Compliance Steering Committee and the Compliance Champions Committee, to oversee the overall compliance of the Group with the relevant policies, guidelines, instructions, laws and regulations in conducting its business.

The Compliance Steering Committee comprises of the Managing Director, the Executive Director, Finance & Control, the Executive Director, Technical and Production, the Executive Director, Group Human Resources, the Executive Director, Group Corporate Affairs, the Head of Legal & Secretarial, the Head of Nestlé Malaysia Internal Audit Department, and the Market Compliance Officer. The Compliance Steering Committee is responsible for setting the direction of the Compliance Framework and to support the successful execution of the Compliance Programme thereof.

The Compliance Champions Committee is made up of representatives from the various business and function units which are mostly represented by the respective Business Controllers. The respective Compliance Champions are responsible for coordinating the compliance documents review by way of sharing sessions and carrying out compliance gaps assessments in their respective business and functions units.

B Compliance Programme

Under the Compliance Programme, the Compliance Champions conduct regular compliance documents review and compliance gaps assessment in the respective business and function units involving all employees. These activities are essential towards instilling the compliance culture and awareness. The Compliance Champions then ensure that any compliance gaps are resolved.

C Compliance Committees Meetings

For the financial year ended 31 December 2015, two (2) meetings of the Compliance Steering Committee were convened whereby the various initiatives and directions under the Compliance Programme were presented by the Market Compliance Officer and further deliberated and endorsed by the Compliance Steering Committee before they were cascaded for execution by the Compliance Champions Committee.

There were two (2) meetings convened by the Compliance Champions Committee. The Compliance Champions Committee meetings were chaired by the Market Compliance Officer and, apart from sharing the direction and endorsements of the Compliance Steering Committee, the agenda of the meetings typically involve discussions on refining the Compliance Programme's initiatives and tools, updating the progress of various initiatives under the Compliance Programme and updating the status of the various plans.

D World Health Organisation ("WHO") Code Compliance Committee

A WHO Code Compliance Committee is also in place to ensure compliance with the International Code of Marketing of Breast Milk Substitutes, the Malaysian Code of Ethics of the Marketing of Infant Foods and Related Products as well as all other applicable laws and regulations in relation to the sales and marketing of infant formula. For the financial year ended 31 December 2015, two (2) committee meetings were held and chaired by the Managing Director. The WHO Code Ombudsman, the Head of Legal & Secretarial and the Country Business Manager, Nestlé Infant Nutrition are the other members of this Committee. The matters presented at the meetings were thereafter shared with to the Board.

E Whistleblowing Policy

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

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

For this purpose, a Non-Compliance Hotline facility (whistleblowing hotline) has been established whereby any employee, supplier or third party may call the hotline, write an e-mail or post a message on the website on any non-compliance situation in the Group as illustrated in the diagram overleaf:

TELEPHONE

1 800-88-4307

Dial 1800-88-4307
(Toll Free Number)

▼

Key in Access Code 41830

▼ *(Select language)*

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

▼

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

E-MAIL

Noncompliance.mailbox@my.nestle.com

Write an email detailing your concern(s)

▼ *(Attach all supporting documents)*

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

▼

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

INTERNET

www.speakupfeedback.eu/web/nm34k/my

▼ *(Select language)*

Key in Access Code 41830

▼ *(Select new message)*

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

▼

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

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

The identity of the whistleblower is also safeguarded at all times. In order to respect anonymity and protect the whistleblower, the Non-Compliance Hotline and website are managed by an independent third party. An employee who believes in good faith that it is his or her duty to report suspected misconduct and who discloses such information is protected by the Group from coercion, retaliation or reprisal in connection with his or her cooperation, which is also provided by the Whistleblower Protection Act 2010.

In 2015, there were only three (3) complaints were received via the Non-Compliance Hotline.

F Business Ethics and Fraud Committee ("BEFC")

A Business Ethics and Fraud Committee is in place to review all complaints and/or allegations lodged via the Non-Compliance Hotline, or any other avenues (e.g. phone, letter, e-mail).

This committee, consisting of senior managers of the Company, ensures an investigation is conducted when needed, reviews the investigation report and decides on the next course of action based on the nature of the violation. Reports and updates are presented and discussed at the Audit Committee meetings prior to it being presented to the Board.

G Personal Data Protection

In light of the Personal Data Protection Act 2010 ("PDPA") which has come into effect on 15 November 2013, the Group has embarked on various compliance and awareness activities to ensure that the Group continues to be in compliance with all applicable laws and regulations in the country in respect of the PDPA and operates in accordance with the Nestlé Corporate Business Principles.

Whilst the Group has consistently benchmarked its relevant activities related to privacy against the Nestlé Global Privacy Policy, the Group also reviews such activities in its business operations and has taken the necessary measures to ensure that the Group is in compliance with the specific legal requirements under the PDPA.

For the financial year ended 31 December 2015, apart from on-going consultations with business units and functions on privacy law issues in day-to-day operations, the Group had also conducted two (2) specific trainings on PDPA and the Nestlé Global Privacy Policy across the business and function units within the Group.

Awareness on PDPA and the Nestlé Group Privacy Policy are also included in the induction trainings for new employees which are conducted on a regular basis. The trainings are aimed to impart the relevant knowledge and to raise awareness amongst employees on the importance to comply with the PDPA and the Nestlé Global Privacy Policy and not to engage in any conduct that transgresses any privacy laws and policies.

H Competition Law

Ever since the coming into effect of the Competition Act 2010 on 1 January 2012, the Company continues to enhance and increase the knowledge and awareness of its employees by having continuous trainings for the employees. These include the provision of induction trainings for new employees as well as specific trainings for different business and function units which are conducted on a regular basis.

As at 31 December 2015, in addition to the induction training for new employees, the Company has conducted 13 trainings for groups of employees from various business and function units including employees in regional sales offices throughout Malaysia.

I Anti-Corruption

Integrity in doing business is consistently advocated in the Group. Anti-Corruption measures in the form of continuous learning initiatives such as Anti-Corruption e-Learning ("e-Learning") was launched in 2012.

The objective of the e-Learning is to further strengthen the implementation and adherence to the Nestlé Code of Business Conduct. The e-Learning is rolled-out consistently throughout the year to internal stakeholders across all operating sites of the Group.

Participants of the e-Learning are required to undergo the complete syllabus with specific reference to the principles as contained in the Nestlé Code of Business Conduct.

Participation by selected employees was compulsory and recorded for monitoring purposes with written assessment to be completed at the end of the e-Learning session.

For the year in review, at least 120 trainings were conducted covering all groups of employees including employees in the factories.

Anti-Corruption messages will continue to be actively disseminated within the Group in 2016 with plans already in place to increase the total coverage area of all integrity related initiatives.

J Consumers

Guided by the Nestlé Quality Policy and the Nestlé Consumer Communication Principles, the Group's products and brands are developed, manufactured and marketed in a responsible manner. In order to achieve the Group's vision of uncompromising quality, the Group maintains one (1) toll free consumer hotline 1 800 88 3433 for all its products with the objective of effectively attending and responding to consumer complaints and feedback in a timely manner.

K Suppliers and Service Providers

The Nestlé Code of Business Conduct, Nestlé Corporate Business Principles and Nestlé Supplier Code (collectively known as "Standards") 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 and the Group's related companies.

These Standards are incorporated into the contracts with the relevant suppliers or service providers. It is made clear in all contracts with suppliers and service providers that breaches relating to any provisions in the Standards may lead to immediate termination of the contract with the affected supplier or service provider.

L 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 is 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 Corporate Business Principles, the Nestlé Code of Business Conduct, 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 whilst observing competitive and transparent bidding process to deliver competitive pricing.

The Group's corporate sustainability directions and activities are disclosed in this Annual Report, attached as a separate report titled Nestlé in Society Report 2015.

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M Accountability and Audit

i. Financial Reporting

The Board in discharging its fiduciary duties also ensures that shareholders are presented with a clear, balanced and meaningful assessment of the Group's financial performance and prospect through the audited financial statements and the quarterly announcements of results. The Chairman's Statement and Managing Director's Statement are available on pages 6 to 9 of the Corporate Report 2015.

ii. Directors' Responsibility Statement

The Directors have also provided assurance that the financial statements prepared for each financial year gives a true and fair view of the state of affairs of the Company and the Group in a transparent manner as at the end of the financial year and of the results and cash flow of the Group for the financial year as required under the Companies Act 1965.

The Directors' Report for the audited financial statements of the Company and Group is as outlined on pages 41 to 44 of this Corporate Governance & Financial Report 2015. Details of the Company and the Group financial statements for the financial year ended 31 December 2015 are set out at pages 45 to 108 of this Corporate Governance & Financial Report 2015.

iii. Internal Controls

The establishment of an appropriate control environment and control framework as well as for reviewing its effectiveness, adequacy and integrity is evidence of the Board's overall responsibility for the Group's system of internal control. It is designed to manage the risk of non-achievement of the Group's objectives and provide adequate assurance against the occurrence of any material misstatement or loss.

The Directors' Statement on Risk Management and Internal Control, which provides an overview of the state of internal controls within the Group, is enumerated at pages 22 to 24 of this Corporate Governance & Financial Report 2015.

Access to Information and Advice

The Board and the Board Committees receive timely and up-to-date information. 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 for the effective discharge of the Board's responsibilities.

Prior to the Board and Board Committee meetings, a formal and structured agenda, as approved by the respective Chairman of the Board and the Committees, together with a set of Board and Board Committee papers, are forwarded to all Directors at least five (5) days prior to the Board and Board Committee meetings, for the Directors to be prepared to deal with matters arising from such meetings and to enable the Board and Board Committees to make decisions.

Presentations to the Board and the Board Committees are prepared and delivered in a manner that ensures a clear and adequate understanding of the subject matter. In addition to that, reading materials on the subject matter, if any, are also prepared and circulated at least five (5) days prior to each meeting to assist Directors in having an understanding of the subject matter.

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

As part of the Board's initiative to promote environmental sustainability and efficiencies, the Board has adopted paperless meeting documentations through the usage of electronic devices.

From time to time, whenever the Board requires relevant information updates from any members of the Management Team or the Leadership Team, the relevant member of the Management Team or the Leadership Team is invited to attend meetings of the Board or its Committees to provide the Board with any such relevant information or updates. External advisers may also be 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.

All Directors have 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 bring up the request for the Board's evaluation on the need for external advice.

Company Secretary

All Directors have unrestricted access to the advice and services of the Company Secretary to enable them to discharge their duties effectively. The Company Secretary, who is qualified, experienced and competent, ensure compliance of relevant regulatory requirements and best practices and advises the Board on updates relating to new statutory and regulatory requirements pertaining to the duties and responsibilities of the Directors, their impact and implication to the Company, including fiduciary duties and responsibilities.

The Company Secretary organises and attends all Board and Board Committee meetings and ensures meetings are properly convened, follows up on matters arising and ensure accurate and proper records of the proceedings and resolutions passed are maintained accordingly at the registered office of the Company. The Company Secretary is also responsible to maintain the documentation of the Board such as meeting papers and minutes of the Board and its committees to be produced for inspection, if required.

The full profile of the Company Secretary is found on page 43 of the Corporate Report 2015.

2. STRENGTHEN THE COMPOSITION OF THE BOARD OF DIRECTORS

The Board consists of eight (8) members, six (6) of whom are Non-Executive Directors (including the Chairman) whilst the remaining two (2) are Executive Directors. All of the Non-Executive Directors are Independent Directors.

This composition fulfills the requirements mandated by the Listing Requirements of Bursa, which stipulate that at least two (2) Directors or one-third (1/3) of the Board, whichever is higher, must be Independent. The profile of each Director is set out on pages 35 to 42 of the Corporate Report 2015. The constitution of the Board is well balanced 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.

Board Improvement Programme and Competency Matrix

The Board, through its Nomination Committee has developed the Board Improvement Programme that identifies the areas which require further improvements and could further enhance Board effectiveness. The Board receives updates on the status of the Board Improvement Programme on a quarterly basis.

To complement the Board Improvement framework, the Board has also developed the Board Competency Matrix. It is a tool used to assess the composition of the Board and to identify gaps in the required skills, experience and attributes.

The full explanation of these frameworks can be found at page 31 of this Corporate Governance & Financial Report 2015.

Diversity

The Board believes that a diverse range of skills and experience is fundamental to good governance and constructive Board. Hence, the Board is committed in ensuring that its composition reflects the diversity in line with Recommendation 2.2 of the MCCG.

The Board also acknowledges that diversity is not limited to gender alone, but encompasses ethnicity/race, age as well as nationality. Presently, the current Board composition comprises of six (6) male Directors and two (2) female Directors.

The Board is satisfied with the current diversity and is of the view that the current composition continues to have a strong, committed and dynamic board with the right mix of skills and balance to contribute to the achievement of the Company's goals. The Board

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comprises of highly qualified professionals with diverse backgrounds and specialisations. Together, they bring in considerable knowledge, judgment and experience to the Board to provide the right guidance to the Management Team. Additionally, the Board has a good mix of governmental, technical and commercial experience relevant to the operation of the Company. These include, *inter alia*, economics, finance, accounting, engineering and legal with industry knowledge in fast moving consumer goods including, the food and beverage industry. The current Board also creates positive and value-relevant impact on the Company. While the Board strives to promote diversity, appointments of Directors are still premised on merit and their knowledge and expertise, which must be relevant to the Company.

The full analysis of the Board composition and diversity can be found on pages 62 to 63 of the Nestlé in Society Report 2015.

Nomination Committee

The Nomination Committee was established on 26 August 2010. The Nomination Committee is responsible to make recommendations to the Board regarding the appointment of directors, evaluation of the skills, experience, competencies of the Directors, diversity of the Board's composition and gap assessment. The Nomination Committee consists of three (3) members, whom are all Independent, Non-Executive Directors.

Upon recommendation by the Nomination Committee of the proposed re-election, re-appointment and retention of the independent directors, the Board will then recommend and support the re-election, re-appointment and retention of the relevant independent directors to be tabled at the next annual general meeting for shareholders' approval.

The full report of the Nomination Committee can be found from pages 29 to 33 of this Corporate Governance & Financial Statement Report 2015.

Compensation Committee

The Compensation Committee was established on 26 August 2010. The Compensation Committee is responsible to make recommendations to the Board on the compensation framework for the Board and the Group's employees. The Compensation Committee consists of four (4) members, a majority of whom are Independent, Non-Executive Directors.

The Committee reviews and makes recommendation to the Board on an annual basis, the remuneration package for the Group's employees. The Committee is responsible to review the remuneration package of the directors.

The full report of the Compensation Committee can be found from pages 34 to 36 of this Corporate Governance & Financial Report 2015.

3. REINFORCE INDEPENDENCE OF THE BOARD OF DIRECTORS

There is a clear division of responsibilities between the Chairman and the Managing Director to promote accountability and facilitate the division of responsibility, such that no one individual has unfettered powers over decision making.

The Chairman

Tan Sri Dato' Seri Syed Anwar Jamalullail has been the Chairman of the Company since 16 April 2009. Prior to his appointment as the Chairman of the Company, he was a Non-Independent, Non-Executive Director, representing Lembaga Tabung Haji and on 5 November 2004 he was re-designated as an Independent, Non-Executive Director, when Lembaga Tabung Haji ceased to be a substantial shareholder of the Company.

As the Chairman, he is responsible for leading and ensuring the adequacy and effectiveness of the Board's performance and governance process, and acts as a facilitator at Board meetings to ensure that contributions by Directors are forthcoming on matters being deliberated. He works closely with the rest of the Board members in reviewing policy framework and strategies to align the business activities driven by the Management Team.

The Managing Director

Alois Hofbauer has been the Group Managing Director since 22 February 2013. He 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. The Managing Director, supported by the Management Team and the Leadership 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 Management Team comprises of the following:

1. Managing Director	6. Executive Director, Human Resource
2. Executive Director, Finance & Control	7. Executive Director, Group Corporate Affairs
3. Executive Director, Technical & Production	8. Country Business Manager, Nestlé Breakfast Cereal
4. Executive Director, Sales	9. Executive Director, Nestlé Ready-to-Drink
5. Executive Director, Supply Chain	

Board Independence

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 in-depth knowledge and experience of the business to enable them to discharge their duties effectively.

The Independent, Non-Executive Directors bring their objective and independent views, advice and judgement 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.

The Independent, Non-Executive Directors are essential for protecting the interests of shareholders and can make significant impartial contributions to the Group's decision making process by bringing in quality advice and impartial views.

The Nomination Committee has also reviewed and deliberated on the tenure of Independent, Non-Executive Directors of the Company, including the Chairman of the Company.

Currently, the Company does not set 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.

The Board undertakes annual assessment of the independence of the relevant directors. During the financial year under review, the Board, together with the Nomination Committee assessed the independence of its Independent, Non-Executive Directors based on criteria set out in Paragraph 1.01 of the Listing Requirements of Bursa.

The MCCG provides a limit of a cumulative term of nine (9) years on the tenure of an Independent Director. However, an Independent, Non-Executive Director may continue to serve the Board upon reaching the nine (9) year limit subject to the Independent, Non-Executive Director's re-designation as a Non-Independent, Non-Executive Director.

In the event the Board intends to retain a Director as Independent beyond the cumulative term of nine (9) years, the Board must justify the decision and seek shareholders' approval at a 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 criterion of independence.

At the forthcoming Annual General Meeting 2016, the Company will seek its shareholders' mandate to retain Tan Sri Dato' Seri Syed Anwar Jamalullail as an Independent, Non-Executive Director of the Company. The Nomination Committee has made the necessary assessment and recommended to the Board that he be retained as an Independent Director of the Company based on his ability to maintain his independence of judgement and to express and maintain unbiased views without any influence.

Corporate Governance Statement

Tan Sri Dato' Seri Syed Anwar Jamalullail, age 64 years old, was first appointed in as Non-Independent Non-Executive Director of the Company on 25 February 2002 and later re-designated to be Independent Non-Executive Director on 5 November 2004.

His position as an Independent Non-Executive Director has been assessed pursuant to Recommendation 3.3 of the MCCG and it has been agreed that Tan Sri Dato' Seri Syed Anwar Jamalullail be recommended for shareholders' approval at the Annual General Meeting 2016, to be retained as an Independent Non-Executive Director of the Board of Directors and as Chairman of the Audit Committee.

The recommendation is based on his exemplary leadership and dedication to his responsibilities as the Chairman of the Board. His vast experience in the Company also allows him to provide guidance to the Management team especially in setting the strategies and direction of the Company. His leadership has ensured effective check and balance in the proceedings of the Board and the Board Committees and he encourages active participations from all members of the Board. Tan Sri is practical in his analysis and assessment, vocal in his outlook and views and has provided the Board with a strong and principled voice. His experience in various companies and capacities suits the Company's required mix of skills and Board diversity.

He has also provided unwavering support to the Company's initiatives in implementing relevant strategies in moving the Company forward and strengthening the Company's credibility and reputation as the leader in the food and beverage industry. His tenure in the Board has given him an in depth understanding of the business environment in which the Company operates, including the challenges faced by the Company.

Tan Sri Dato' Seri Syed Anwar Jamalullail is a qualified Chartered Accountant from the Malaysia Institute of Accountants and also a Certified Practising Accountant from the Australian Society of Certified Practising Accountants.

Tan Sri Dato' Seri Syed Anwar Jamalullail is also the Chairman of Cahya Mata Sarawak Berhad, Malakoff Corporation Berhad, Lembaga Zakat Selangor, Pulau Indah Ventures Sdn. Bhd. (a joint venture company between Khazanah Nasional Berhad and Temasek Holdings of Singapore).

This proposed resolution is in line with the recommendation under MCCG and this would allow him to continue to serve as Chairman of the Audit Committee pursuant to the requirements of Paragraph 15.10 of the Listing Requirements of Bursa.

The Nomination Committee will continue, on an annual basis, to assess the independence of the Independent, Non-Executive Directors.

4. FOSTER COMMITMENT OF DIRECTORS

The Board ordinarily schedules four (4) meetings in a year. The Board and Board Committee meetings are scheduled well in advance, i.e. in the 1st Quarter of the preceding financial year, to facilitate the Directors in planning ahead and to ensure that the dates of the Board and Board Committees meetings are booked in their respective schedules. Additional meetings are convened when urgent and important decisions need to be made in between scheduled meetings.

During the financial year ended 31 December 2015, five (5) Board meetings were held. The details of the Directors' attendances are as follows:

Director	**Meeting Attendance**
Tan Sri Dato' Seri Syed Anwar Jamalullail	5/5
Dato' Mohd. Rafik Bin Shah Mohamad	5/5
Tan Sri Datuk (Dr.) Rafiah Binti Salim	4/5
Tan Sri Datuk Yong Poh Kon	5/5
Toh Puan Dato' Seri Hajjah Dr. Aishah Ong	5/5
Dato' Frits van Dijk	4/5
Alois Hofbauer	5/5
Martin Peter Krügel	5/5

Time Commitment

In compliance with the Listing Requirements, all of the Directors do not hold more than five (5) directorships of listed issuer at any one time. This is to ensure that the Directors are able to discharge his or her responsibilities.

In order to facilitate Directors' planning, an annual meeting calendar is prepared and given to Directors one (1) year in advance before the beginning of each new financial year. In addition to the scheduled meetings, whenever any direction or decisions are required expeditiously or urgently from the Board, special meetings of the Board are convened by the Company Secretary, after consultation with the Chairman. Decisions of the Board are made unanimously or by consensus. Where appropriate, decisions may be taken by way of Directors' Circular Resolutions between scheduled and special meetings. In 2015, six (6) resolutions ranging from administrative to operational issues were approved by Directors via Circular Resolutions.

The agenda for the meetings of the Board are set by the Company Secretary in consultation with the Chairman and the Managing Director. As stated on page 10 of this Corporate Governance & Financial Report 2015, 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 the meetings. The Board has a regular schedule of matters which are typically on the agenda and reviewed during the course of the year.

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 Board's policy that Directors devote sufficient time and effort in discharging their responsibilities. This commitment is obtained from the Directors at the time of appointment.

The Board has outlined the proper procedure which needs to be complied by the Directors before accepting any new external Board appointment. The Chairman and the Managing Director will decide on the acceptance of the request. If there is a potential conflict in the pending appointment, it will be tabled at the Nomination Committee notwithstanding that Paragraph 15.06 of the Listing Requirements of Bursa allows for a Director to sit on the board of up to five (5) listed issuers. Such notification is expected to include an indication of time that will be spent on the new external appointment.

Directors' Training

The Board is mindful of the importance for its members to undergo continuous training. The Nomination Committee continues to evaluate and determine the training needs of the Directors to ensure continuous trainings and education in order for them to enhance their business acumen and professionalism in discharging their duties to the Group.

In evaluating the training needs of the Directors, the Nomination Committee looks at various aspects of development including industry and regulatory developments and thereafter makes recommendations to the Board. The Nomination Committee presented to the Board the Board Training Programme for 2015 and upon approval by the Board, the Company Secretary made the necessary arrangements to implement the Board Training Programme.

In addition, the Company Secretary also receives regular updates on training programmes from various organisations including the regulators. These updates are circulated to the Directors for their consideration.

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

The external auditors also continuously brief the Audit Committee on any changes to the Malaysian Financial Reporting Standards that affect the Group's financial statements during the year.

Corporate Governance Statement

Any new Director appointed to the Board is required to complete the Mandatory Accreditation Programme ("MAP"). All of the Directors have attended the MAP within the timeframe granted by Bursa.

In compliance with Paragraph 15.08(2) and Appendix 9C (Part A, Paragraph 28) of the Listing Requirements of Bursa, all Directors have attended the relevant trainings during the financial year ended 31 December 2015. The summary of the trainings attended by the respective Directors are as follows:

Training Focus	Conferences/Seminars and Training Programmes
Strategy/Risk	• Nestlé Philosophies
Internal Operation	• NESCAFÉ Blend & Brew • Challenges Faced by Infant Nutrition Industry • Becoming Malaysia's #1 FMCG Digital Company • Products Innovation & Renovation • Overview of MILO in Malaysia
Compliance	• Invitation to Lead the Change: Getting Women On Boards Event • Roles of Audit, Nomination and Compensation Committees • Governance on Corporate Sustainability • Ethics Red Flags for Board of Directors • Corporate Governance Statement Reporting Workshop for Directors • Corporate Governance Breakfast: Board Rewards and Recognition
Company Initiatives	• Creating Shared Value • Overview and a visit to Nestlé Research and Development Centre, Nestlé Quality Assurance Centre, Jurong Factory and Wyeth Factory in Singapore
Performance	• Passion to Perform at the Women in Asia Business Conference • Conference on Leading in High Heels
Others	• Khazanah Megatrend

Other matters which were presented to the Board are as follows:

- Nestlé Corporate Business Principles and Nestlé Code of Business Conduct;
- Updates on compliance meeting on Code of Ethics for Marketing of Infant Nutrition Foods and Related Products;
- Updates on Business Ethics and Fraud meetings;
- Litigation updates, if any; and
- Financial results of Nestlé S.A.

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. This is done 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 relies on the external audit reports to ensure that the financial statements give a true and fair view of the state of affairs of the Group and the Company, their results and cash flow as at the end of the reporting period. The Directors ensure that the financial statements are prepared according to the accounting standards approved by the Malaysian Accounting Standards Board and comply with the provisions of the Companies Act, 1965 and reasonable, prudent judgements 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 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 to the best of its knowledge, 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 on pages 41 to 101 of this Corporate Governance & Financial Report 2015.

To assist in the discharge of its duties on financial reporting, the Board has established an Audit Committee, comprising wholly Independent, Non-Executive Directors, with Tan Sri Dato' Seri Syed Anwar Jamalullail as its Chairman. The composition of the Audit Committee, including its roles and responsibilities, are set out on pages 25 to 28 of this Corporate Governance & Financial Report 2015. 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.

An assessment of the objectivity, independence, performance, experience, competency and quality of service delivery of the Group's external auditors was conducted by the Audit Committees and the Nestlé Market Audit.

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

On 23 February 2016, the Board approved the Audit Committee's recommendation for the re-appointment of the external auditor, KPMG for shareholders' approval at the coming 32nd Annual General Meeting 2016.

The Audit Committee has obtained the assurance from external auditors confirming their independence.

6. RECOGNISE AND MANAGE RISKS OF THE GROUP

In recognising the importance of risk management and internal controls, the Board has established a structured 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 framework are set out in the Statement on Risk Management and Internal Control included on pages 22 to 24 of this Corporate Governance & Financial Report 2015.

The Board has established internal control policies and procedures. The Board monitors to ensure that these policies and procedures are effectively implemented and carried out by the Management Team. The Group has in place information technology policies that outline the processes to create policies, best practices, standards and the use of the supporting information technologies. The Board is mindful of the legal implications in the event of any breach of laws and regulations relating to the misuse of technology systems or information.

Corporate Governance Statement

Guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers issued by the Malaysian Institute of Accountants, the Board performs annual reviews in all material aspects on financial, operational and compliance control and risk management systems. The Board is provided with reasonable assurance from various reports submitted by the Management Team and the Audit Committee on risk management and internal control systems. Details on the Statement on Risk Management and Internal Control and Nestlé Malaysia Internal Audit Function are set out on pages 22 to 24 of this Corporate Governance & Financial Report 2015.

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 ended 31 December 2015, the corporate disclosure policies and procedures which have been adopted and implemented by 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. Based on the foregoing, the Board approved and released the quarterly financial results for the year ended 31 December 2015 on the following dates:

2015 Quarterly Results	Date of Issue/Release	Bursa Securities Deadline	Number of Days after End of Quarter
1st Quarter	20.04.2015	31.05.2015	20
2nd Quarter	12.08.2015	31.08.2015	43
3rd Quarter	22.10.2015	30.11.2015	22
4th Quarter	23.02.2016	28.02.2016	54

(including full year results)

ii. Investors relations

The Company holds separate quarterly briefings for fund managers, institutional investors, investment analysts and the media after its announcement of each quarterly result to Bursa. The quarterly briefings are intended not only to promote the dissemination of the financial results of the Company to fund managers, investors, shareholders and the media but to also 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, Finance & Control.

In 2015, the Company held four (4) quarterly briefings and the Company also engages with institutional investors on a regular basis.

iii. Company website and authorised 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 current business initiatives and financial performance. Effective 2013, the Company publishes the Quarterly Reports on the Company's corporate website, www.nestle.com.my, where shareholders can access information under the 'Investor Relations' page.

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

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

Name	:	Martin Peter Krügel
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.	:	+603 7965 6107
E-mail	:	InvestorRelations.Malaysia@my.nestle.com

Details of his qualification and relevant experience are found in the Profile of Directors on page 42 of the Corporate Report 2015.

It has been the Company's practice to respond to shareholders' letters, telephone and e-mail enquiries. Each letter or e-mail received which requires the attention of the Board, is reviewed by the Company Secretary before it 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 Board is mindful of the legal and regulatory framework governing the release of material and price sensitive information.

8. STRENGTHEN RELATIONSHIP BETWEEN THE COMPANY AND ITS SHAREHOLDERS

The Board believes that it is 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 Board recognises the importance of maintaining transparency and accountability to the Company's 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 shareholders and investors with information on its business, financials and other key activities in the Annual Report of the Company, the contents of which 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 the Company's shareholders. In disclosing information in the Annual Report, the Board is guided by the principles set out in the Listing Requirements of Bursa and all of the applicable laws, regulations, internal and external guidelines on corporate governance.

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 of Bursa, 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 arising from such items. The Annual General Meeting is the principal opportunity for the Board to meet shareholders, for the Chairman to provide an overview of the Group's progress, and to receive questions from shareholders.

Corporate Governance Statement

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 resolutions set out in the Notice of the Annual General Meeting, are put to vote by show of hands. The Company shall endeavour, wherever possible, to put to vote of resolutions at the Annual General Meeting by poll, if required. A press conference is held immediately after the Annual General Meeting where the Chairman, the Managing Director and selected members of the Management Team provide 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, 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. Written responses will also be given, if necessary.

The 31st Annual General Meeting was held on 23 April 2015 at Hilton Hotel, Kuala Lumpur.

Communication and Engagement with Shareholders

The Company recognises the importance of being transparent and accountable to its stakeholders. The Company 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 channels of communications include meetings with institutional shareholders and investment communities, quarterly announcements on financial results to Bursa, announcements and circulars, as necessary, the Annual and Extraordinary General Meetings and the Company's corporate website at www.nestle.com.my. Shareholders and prospective investors can access corporate information, annual reports, press releases, financial information, company announcements and share prices of the Company from these channels of communications. 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.

9. ADDITIONAL COMPLIANCE INFORMATION AS AT 31 DECEMBER 2015

i. Related party transactions

An internal compliance framework exists to ensure the Company meets its obligations under the Listing Requirements of Bursa, including obligations relating to related party transactions and recurrent related party transactions. The Board, through its Audit Committee, reviews and monitors all related party transactions and conflict of interest situations, if any, on a quarterly basis. A Director who has an interest in a transaction must abstain from deliberating and voting on the relevant resolution, in respect of such a transaction at the meeting of the Board, the Annual General Meeting or Extraordinary General Meeting.

The Group has established procedures regarding its related party transactions which are summarised as follows:

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

The Recurrent Related Party Transactions pursuant to shareholders' mandate entered into by the Group with its related parties from 23 April 2015 (the date of the last Annual General Meeting) to 2 March 2016, are as follows:

- purchases of semi-finished and finished food products from Nestlé affiliated companies which amounted to approximately RM501 million;
- payment of royalties for the use of trademarks for the sale of food products to Nestlé affiliated companies amounting to approximately RM218 million;
- payment for information technology shared services for use and maintenance of information technology services to Nestlé affiliated companies which amounted to RM32 million;
- sale of food products to Nestlé affiliated companies amounting to approximately RM741 million;
- billing for shared services of approximately RM2.2 million for Cereal Partners (Malaysia) Sdn. Bhd. RM2.1 million, Purina Petcare (Malaysia) Sdn. Bhd. and RM2.4 million Wyeth Nutrition (Malaysia) Sdn. Bhd.

ii. Material Contracts

For the financial year ended 31 December 2015, 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 which have been declared.

iii. Non-audit Fees

The amount of non-audit fees incurred for services rendered by the external auditors, KPMG to the Group during the financial year ended 31 December 2015 is as follows:

Activities	Amount (RM)
Includes regulatory updates reporting to Nestlé S.A, review of Annual Report disclosures, consultancy work in the context of goods and services tax ("GST") implementation and other advisory services	230,000

In 2015, the Company spend approximately RM230,000 on Non-Audit Fees representing 44% of the total fees to external auditors, as a result of one-time consultancy work in the context of the GST implementation and other advisory services. There was also a reduction in the fees for the statutory audit as a result of the centralisation of Audit activities from the local Nestlé companies to the global Head Office in Switzerland.

iv. Profit Guarantee

The Company did not make any profit guarantee during the financial year ended 31 December 2015.

v. Material Litigation

The Company did not have any material litigation during the financial year ending 31 December 2015.

10. COMPLIANCE STATEMENT BY THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE STATEMENT

The Board has deliberated, reviewed and approved this Statement. Pursuant to Paragraph 15.25 of the Listing Requirements of Bursa, the Board is pleased to report that the Board is satisfied that to the best of its knowledge the Company has fulfilled its obligations in accordance with all of the applicable laws, regulations, internal and external guidelines on corporate governance throughout the financial year ended 31 December 2015. This Statement was presented and approved at the meeting of the Board on 3 March 2016.

Statement on Risk Management and Internal Control

INTRODUCTION

The Board of Directors of the Company ("Board") is committed towards maintaining a sound system of risk management and internal control and is pleased to provide this Statement on Risk Management and Internal Control (the "Statement") which outlines the scope and nature of risk management and internal control of the Nestlé (Malaysia) Berhad and its subsidiaries ("Group") for the financial year ended 31 December 2015.

For the purpose of disclosure, this Statement is prepared pursuant to Paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements") and is guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board is committed and acknowledges its overall responsibility to maintain the Group's system of risk management and internal control 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 ongoing process for identifying, evaluating and managing significant risks faced by the Group. The Board has delegated the responsibility of monitoring the risk management and internal control 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 Malaysia Internal Audit Department and prevailing practices of related companies, the Board and Management Team have put in place risk management guidelines, control measures and processes throughout the Group.

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 2012 ("MCCG"). Risk management practices are inculcated and entrenched in the activities of the Group, which requires, amongst others, establishing risk tolerance thresholds to actively identify, assess and monitor key business risks faced by the Group.

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

NESTLÉ MALAYSIA INTERNAL AUDIT DEPARTMENT

The Nestlé Malaysia Internal Audit Department, also known as "Nestlé Market Audit", is responsible for reviewing all policies and processes of the Group and its relationship with third parties. It provides the Board through the Audit Committee with an independent opinion on the processes, risk exposures and systems of internal controls of the Group. The responsibilities of the Nestlé Market Audit include:

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

The Nestlé Market Audit 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 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's response on each internal audit recommendation and action plans therein, are regularly reviewed and followed up by the Nestlé Market Audit and reported to the Audit Committee.

A matrix which covers the overall audit ratings, nature of work and scope, and audit issues and its priorities have been developed as a template to guide the conduct of the follow up audit. For the financial year ended 31 December 2015, the Nestlé Market Audit conducted seven (7) internal audits across corporate functions, warehouse and business units. In addition, two (2) ad hoc reviews were conducted. Observations arising from the internal audit are presented, together with Management Team's response and proposed action plans, to the Audit Committee for its review and approval.

Furthermore, the Nestlé S.A. Audit Department, also known as the "Nestlé Group Audit", 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 Group Audit 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 Group Audit are regularly reported to Nestlé S.A. Management and the Audit Committee of Nestlé S.A. For the financial year ended 31 December 2015, based on the approved annual audit plan and the risk assessment, two (2) audits were performed on the Group by the Nestlé Group Audit.

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

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 Corporate 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 Market Audit serves to assess the implementation and the effectiveness of these procedures and reporting structures, as well as to verify the system of risk management and internal controls.

Statement on Risk Management and Internal Control

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

For the financial year ended 31 December 2015, based on the completed ICSAT 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 Risk Management and Control Framework Function performs the follow-up audit to assess and report on the status of these action plans (i.e. implemented, in progress, or pending) on a monthly basis to the Executive Director, Finance & Control.

A Business Ethics and Fraud Committee is in place to review all complaints/allegations lodged via the Non-Compliance Hotline or any other avenues (e.g. phone, letter, e-mail) which are in line with the Whistleblowing policy of the Group as described on pages 7 and 8 of this Corporate Governance & Financial Statement 2015. This committee ensures an investigation is conducted when needed, reviews the investigation report and decides on the next course of action based on the nature of the violation. All fraud cases, if any, are also reported to Nestlé S.A. by the Nestlé Market Audit.

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 inputs from the relevant assurance providers, the Board is of the view and to the best of its knowledge that the system of risk management and internal control is satisfactory and is adequate to safeguard shareholders' investments, customers' interest and Group's assets. The Group will continue to take measures to strengthen the risk management and internal control environment.

THE REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control pursuant to the scope set out in Recommended Practice Guide ("RPG") 5 (Revised 2015), Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report issued by the Malaysian Institute of Accountants ("MIA") for inclusion in the annual report of the Group for the financial year ended 31 December 2015 and reported to the Board that nothing has come to their attention that cause them to believe that the statement intended to be included in the annual report of the Group, in all material respects: (a) has not been prepared in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers, or (b) is factually inaccurate.

RPG 5 (Revised 2015) does not require the external auditors to consider whether the Directors' Statement on Risk Management and Internal Control covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system including the assessment and opinion by the Board and management thereon. The auditors are also not required to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

This statement was presented and approved by the Board on 23 February 2016.

Audit Committee Report

MEMBERS

Tan Sri Dato' Seri Syed Anwar Jamalullail
Independent, Non-Executive Director
Chairman
(Member of the Australian Society of Certified Practising Accountants (CPA);
Member of the Malaysian Institute of Accountants)

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

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

A. TERMS OF REFERENCE OF THE AUDIT COMMITTEE

The Audit Committee acts as a committee of the Board of Directors ("Board") and was established on 2 March 1994.

OBJECTIVES

The Audit Committee is an independent committee which assists the Board in the discharge of its responsibilities for corporate governance, internal controls and financial reporting. The Audit Committee acts on behalf of the Board to ensure that:

1. The financial statements of the Group complies with the applicable financial reporting standards;
2. The internal audit function is operating effectively and in accordance with the Standards for the Professional Practice of Internal Auditing;
3. Adequate attention is paid to the effectiveness, efficiency and economy of the Group's operations;
4. The quarterly results and year-end financial statements are reviewed prior to the approval by the Board;
5. Adequate systems of governance, risk management and internal control are in operation so as to produce accurate and meaningful management information;
6. Management has implemented policies to ensure that the Company's risks are identified, evaluated and that internal controls in place are adequate and effective to address the risks;
7. Appropriate and timely action is taken by the relevant managers to rectify the major areas of concern; and
8. Assess any major litigation, claims and/or issues with substantial financial impact (if any).

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 external and internal auditors, which are designed to provide a satisfactory and effective level of internal control, asset protection and management information;
- monitor the Group's operations via appropriate internal audit reviews, to ascertain if adequate attention is paid to attributes of efficiency, effectiveness and economy;
- review the related party transactions and any conflict of interest situations, if any; and
- rely on Nestlé's Group Audit for Information System/ Information Technology ("IS/IT") related internal control risks.

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;

Audit Committee Report

- 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 of external audit report;
- 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 that are in place at the various controlled entities or subsidiaries;
- review and monitor the suitability, competence and independence of the external auditors; and
- review the provision of non-audit services by the external auditors to ascertain whether such provision of services would impair the auditor's independence or objectivity.

Reporting

- review the quarterly, cumulative half year and full year results and annual final draft of the financial statements (prior to the meeting of the 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 such as possible material litigation, claims or issues with substantial financial impact; 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, has the necessary resources, has full and unrestricted access to any information pertaining to the Group and is authorised to require any officer of the Group to supply such information and explanations as may be needed and to:

- investigate any matter within its Terms of Reference;
- have discussions with the Management Team and employees of the Group at any reasonable time;
- draw assistance from qualified external party to advise on issues, where the members require expert input;
- meet with the external auditors twice a year without the presence of the Management Team; and
- convene meetings with external auditors, the internal auditors or both, without the presence of the Management Team, whenever necessary.

B. THE PROCESS OF THE AUDIT COMMITTEE

The Audit Committee should be chaired by an independent chairman demonstrating in depth relevant skills and capabilities. All of the members of the Audit Committee are Independent, Non-Executive Directors. The Audit Committee meets at least four (4) times a year scheduled in every quarter. If required, additional meetings will be scheduled. The quorum required for the Audit Committee meeting shall be at least two (2) members.

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

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

The Audit Committee continuously reviews and updates its Terms of Reference. The Audit Committee had reviewed and approved the Terms of Reference, which is disclosed in this Annual Report 2015.

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee, comprises of three (3) members who are all Independent, Non-Executive Directors. The Chairman of the Audit Committee, Tan Sri Dato' Seri Syed 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 and equipped with the required business skills. A quorum, established by the presence of the Chairman, and at least one (1) other member, has always been met for the meetings of the Audit Committee.

The Audit Committee held five (5) meetings (including a Special Meeting) for the financial year ended 31 December 2015 and the attendance of members was as follows:

No.	Audit Committee Members	Meeting Attendance
1.	Tan Sri Dato' Seri Syed Anwar Jamalullail	5/5
2.	Dato' Mohd. Rafik Bin Shah Mohamad	5/5
3.	Tan Sri Datuk (Dr.) Rafiah Binti Salim	4/5

Upon invitation by the Audit Committee, the Executive Director, Finance & Control, representatives of the external auditors, the Head of Nestlé Malaysia Internal Audit Department 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.

SUMMARY OF ACTIVITIES DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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, external audit reports, management letter and the response from the Management Team in their absence;
- review and evaluate factors relating to the independence of the external auditors and recommend the re-appointment of the Group's external auditors and the outcome of the Assessment of the Objectivity, Independence and Quality of Service Delivery of the Group's external auditors for the previous year;
- ensure the external auditors meets the criteria provided by Paragraph 15.21 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements");

On 22 February 2015, the Audit Committee carried out an assessment of the objectivity, independence and quality of service delivery of the External Auditors to assess the suitability, objectivity, independence and quality of service 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 Audit Committee also ensured that the external auditors met the criteria provided by Paragraph 15.21 of the Listing Requirements;

In line with the internal policy, the Company generally engages the external auditors only for audit purposes. However, as and when their non-audit expertise is required, the Company also engages its external auditor for the provision of non-audit activities. In 2015, the Company spent approximately RM230,000 on Non-Audit Fees representing 44% of the total fees to external auditors, as a result of one-time consultancy work in the context of the goods and services tax ("GST") implementation and other advisory services.

On 23 February 2016, the Board approved the Audit Committee's recommendation for the re-appointment of the external auditor, KPMG to be tabled for shareholders' approval at the 32nd Annual General Meeting 2016.

Activities with regards to internal audit:

- review of internal audit's resource requirements, scope, adequacy of authority and function on a quarterly basis;
- review of internal audit's plan and programmes on a quarterly basis;
- 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;
- review updates on the development of Internal Audit practices;

Audit Committee Report

- suggested additional improvement opportunities in the areas of internal control, systems and efficiency improvement;
- review the performance of the Internal Audit practice on a quarterly basis;
- review the current status of complaints received via the Non-Compliance Hotline on a quarterly basis; and
- review on a quarterly basis and take cognisance of the movements of internal audit staff members.

Activities with regards to financial statements:

- review and approve the quarterly results, cumulative half year and full year results, profit and dividend (if any), announcement and to recommend that they be tabled to the Board for their review and approval;
- review and approve the annual report and the audited financial statements of the Company and the Financial Report for inclusion in the Annual Report prior to submission to the Board for their perusal and approval. This is 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 Listing Requirements, 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's approval.

Other activities:

- discuss with the external auditors any problems/issues arising from the final audit and review the assistance given by employees to the external auditors (in the absence of the Management) twice yearly;
- review of related party transaction and any conflict of interest situations on a quarterly basis, if any;
- review of Recurrent Related Party Transactions and the draft Circular to Shareholders in relation to the Proposed Renewal of Shareholders' Mandates for Recurrent Related Party Transactions of revenue or trading nature;
- review of the Statement of Internal Control and Risk Management in compliance with the Listing Requirements and the Malaysian Code on Corporate Governance 2012 ("MCCG");
- review of major litigation, claims and/or issues with substantial financial impact on a quarterly basis (if any);
- review of the Nestlé Malaysia Group Retirement Scheme;
- review the management of major business risks by the Company on a quarterly basis;
- review agenda for 2016; and
- review of the effectiveness of the Audit Committee meeting.

Nestlé Malaysia Internal Audit Department

The Nestlé Malaysia Internal Audit Department, also known as "Nestlé Market Audit", is aligned to the MCCG. The Nestlé Market Audit is administered as a department within the Finance & Control function in the Group but reports directly to the Audit Committee and functionally to the Nestlé S.A. Audit Departments, also known as "Nestlé Group 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 details of which can be found on pages 22 to 24 of the Statement on Risk Management and Internal Control. The outcome of the reviews are objectively reported to the Management Team and to the Audit Committee.

The Nestlé Market Audit is headed by Genevieve Yeoh Swee Hoon, 45 years of age, has served the Company for 15 years in various functions, including the Accounting and Consolidation Department. In August 2008, she was transferred to the Petaling Jaya factory as Factory Controller. She was transferred back to Head Office in September 2012 to join the Milks Business Unit as the Controller. Starting from July 2013, she was the Business Controller for both MILO and Milks Business Unit. On 1 September 2015, she was appointed as the Head of Nestlé Market Audit.

Genevieve obtained her Chartered Institute of Management Accountant ("CIMA") qualification in 1996.

The costs incurred for the internal audit function for the financial year ended 31 December 2015 is MYR1,408,327.

Nomination Committee Report

MEMBERS

Tan Sri Dato' Seri Syed Anwar Jamalullail
Independent, Non-Executive Director
Chairman

Dato' Frits van Dijk
Independent, Non-Executive Director
Member

Tan Sri Datuk Yong Poh Kon
Independent, Non-Executive Director
Member

A. TERMS OF REFERENCE

The Nomination Committee was formed by the Board of Directors ("Board") and the principal responsibilities of the Nomination Committee are as follows:

1. Review the size, structure, balance and composition of the Board and the Board Committees;
2. Evaluate the required mix of skills, experience, core competencies, diversity of the Board, the Board Committees and the contribution and performance of the individual Directors for the effective and efficient functioning of the Board and the Board Committees;
3. Undertake gap assessment and develop improvement programme based on the review and evaluation of the Board, Board Committees and individual Directors;
4. Review the independence of Directors including, where appropriate, criteria on assessing the independence of candidates' appointment as Independent, Non-Executive Directors and time commitment of each Independent Director;
5. Review the succession plans, policy on Board composition and board diversity (including gender, ethnicity and age diversity) and review the management development and succession plans for the Management Team of the Company;
6. Establish a suitable process to identify, recommend and nominate suitably qualified candidates for the Board in terms of appropriate balance of skills, expertise, attributes and core competencies, taking into consideration the character, experience, integrity, competence and time commitment prior to the appointment;
7. Review the retirement of Directors by rotation in accordance with the Company's Articles of Association, the Directors who are eligible for re-election, the re-appointment of Directors of or over the age of 70 years and the retention of Directors who have served beyond nine (9) years as Independent Directors, and to assess their eligibility for re-election, re-appointment or retention prior to recommending to the Board the candidates for re-election, re-appointment or retention; and
8. Ensure new Directors go through a proper induction programme, to review the trainings attended by the Directors and to continuously evaluate the training needs for individual Directors.

B. THE PROCESS OF THE COMMITTEE

The Nomination Committee should be chaired by the Chairman of the Board and the Chairman is responsible for the conduct of meetings. Regular meetings are fixed in a calendar year and the Chairman has the discretion to call for additional meetings whenever required. The quorum required for the Nomination Committee meeting shall be at least two (2) members.

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

Nomination Committee Report

In appointing the appropriate individual to the Board, the Nomination Committee shall first consider a suitable candidate for directorship taking into consideration the candidate's skills, knowledge, competencies, expertise and experience, time commitment, professionalism, integrity and diversity. The Nomination Committee will then evaluate the candidate based on the established framework. The Nomination Committee shall prepare a description of the role and capabilities required for a particular appointment before a recommendation is made to the Board.

Upon appointment to the Board, the new Director will undergo a comprehensive induction programme and he or she will receive a briefing regarding the Company, its operations as well as what is expected of them in terms of time commitment, Board Committee involvements, if any, and other involvements outside Board and Board Committee meetings.

Before any Director accepts any new external Board appointment, the Director shall first ensure sufficient time commitment to the Company and write to the Company Secretary who will then bring the matter to the attention of the Chairman. The Chairman will then discuss with the Managing Director on the acceptance of the appointment. If there is a potential conflict in the appointments, it will be tabled at the Nomination Committee meeting.

Directors seeking re-election, re-appointment and retention would abstain from all deliberations regarding his/her re-election, re-appointment and retention.

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

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

C. STATEMENT ON ACTIVITIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

In 2015, the Nomination Committee met four (4) times and the attendance of members was as follows:

No.	Nomination Committee Members	Meeting attendance
1.	Tan Sri Dato' Seri Syed Anwar Jamalullail	4/4
2.	Tan Sri Datuk Yong Poh Kon	4/4
3.	Dato' Frits van Dijk	4/4

The Nomination Committee had assessed, reviewed and considered the size, structure and composition of the Board and the Board Committees, including the required mix of skills and experience, core competencies of the Directors and Board diversity for the effective and efficient functioning of the Board and the Board Committees and evaluated the effectiveness of each Director, Board Committee and Board as a whole. The Nomination Committee was of the view that the current size, structure and composition facilitated good discussions and encouraged contributions and participations from all the Directors.

The Nomination Committee had recommended to the Board for the existing Board composition to be maintained, with the desire to achieve a balance between continuity and renewal. The current composition of the Board fulfils the required balance and diversity which is evident from the recognition given to the Company when it was awarded with Best Inclusiveness and Diversity Reporting Award at the National Annual Corporate Report Awards 2015.

A separate independence assessment was carried out by the Nomination Committee by way of the Director's self and peer evaluation in order to ensure that Independent Directors are able to continue to bring independent and objective judgment to the Board.

The Nomination Committee had also reviewed the declaration of directorship and time commitment by each Director. This declaration discloses all directorship held by the Director in all companies including non-governmental organisations ("NGOs"). The Directors had also provided confirmation on their commitment to devote sufficient time to carry out their responsibility and duties as a Director of the Company.

The Nomination Committee also discussed and assessed the policy on the tenure of directorship and the Directors' succession planning to ensure that the Directors are able to continue to provide independent and objective judgment to the Board and Company as a whole.

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 individuals of high calibre and integrity and can be tasked to discharge their duties and responsibilities independently and effectively.

Following the review undertaken by the Nomination Committee in respect of induction and trainings for directors, it was acknowledged that the Directors do have the competencies to serve as members of the Board, but additional customised trainings are important to areas relevant to the Company's business and the challenges faced by the Company in the fast moving consumer goods industry. The Nomination Committee reviewed the recent trainings attended by each Director and deliberated on the 2015 training programme for the Board, which was subsequently approved by the Board. The Company Secretary had identified and informed the Board of relevant trainings for attendance by the Directors.

The description of trainings attended by the Directors is found on page 16 of this Corporate Governance & Financial Report 2015.

The Board took cognisance of the importance of effective human capital development, talent retention and succession planning for key management positions in the Company to ensure business continuity. Hence, the Nomination Committee had also reviewed the development and succession planning for the Management Team and the Leadership Team. The Nomination Committee was also included in the deliberation of the Company's Remuneration Direction for 2016.

The Nomination Committee annually reviews and updates its Terms of Reference and has discussed and planned the Nomination Committee Agenda for the following year in advance.

The Nomination Committee had approved the revised Terms of Reference and the Nomination Committee Report, which was disclosed in the Annual Report 2014.

In addition to the activities above, some of other key activities undertaken by the Nomination Committee include the Board Improvement Programme and the development of the Board Competency Matrix.

a. Board Improvement Programme

Subsequent from the Board Effectiveness Evaluation ("BEE") conducted in 2013, the Nomination Committee reviewed the results of the exercise and formulated the Board Improvement Programme ("BIP") which was later approved by the Board.

The BIP is a framework in which a number of areas have been identified during the BEE, which require further improvements and could further enhance Board effectiveness. Some of the key areas addressed by the BIP were human capital development and succession planning, continuous updates on the status of Business Continuity Plan, risk management, management key performance indicators and investor relations initiatives.

The BIP was implemented throughout 2015 and successfully completed by end of 2015.

b. Board Competency Matrix

The complexity of the Company's operations and the environment in which it operates requires the Board to be highly competent and knowledgeable in the relevant areas. As such the Nomination Committee regularly reviews the current composition of the Board to ensure that the directors are able to understand what is expected of them.

The Nomination Committee also formulated a Board Competency Matrix. The Competency Matrix was used to assess the composition of the Board and to identify gaps in the required skills, experience and attributes. It served as a review on the competencies of the Directors and it was acknowledged that the Directors do have the required competencies to serve as members of the Board. Based on the Competency Matrix, the Nomination Committee had identified and recommended to the Board the measures to be taken to address the identified areas of improvements.

c. Directors' Retirement and Re-election

The Nomination Committee had deliberated and proposed to the Board its recommendations on the re-election, re-appointment and retention of the relevant Directors that shall be tabled for shareholders' approval at the forthcoming Annual General Meeting.

Article 88 of the Company's Articles states that at any point of time, the total number of Directors shall not be less than two (2) and not more than eight (8) and Nestlé S.A. shall be entitled to appoint up to four (4) Directors.

Nomination Committee Report

The Company's re-election process is done in accordance with Articles 90.1 and 90.2 of the Company's Articles of Association ("Articles"), which state that one-third (1/3) of the Directors for the time being appointed shall retire from office and be eligible for re-election, provided that all Directors shall retire from office at least once in each three (3) 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 the longest in office since their last election.

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.

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

	Director	Designation	Relevant Provisions
a.	Tan Sri Datuk (Dr.) Rafiah Binti Salim	Independent, Non-Executive Director	Re-election under Article 90.1
b.	Alois Hofbauer	Executive Director	Re-election under Article 90.1
c.	Toh Puan Dato' Seri Hajjah Dr. Aishah Ong	Independent, Non-Executive Director	Re-appointment under Article Section 129 of the Companies Act 1965
d.	Tan Sri Datuk Yong Poh Kon	Independent, Non-Executive Director	Re-appointment under Section 129 of the Companies Act 1965
e.	Tan Sri Dato' Seri Syed Anwar Jamalullail	Independent, Non-Executive Director	Retention under Recommendation 3.3 of the MCCG 2012

1. Re-election of Tan Sri Datuk (Dr.) Rafiah Binti Salim pursuant to Article 90.1 of the Company's Articles of Association

The recommendation to re-elect Tan Sri Datuk (Dr.) Rafiah Binti Salim is based on her vast experience in the public and private sectors both domestically and internationally.

Her experience provides her with a distinctive outlook and unique perspective on diverse corporate matters, while adding to a healthy Board diversity.

Tan Sri Rafiah's outstanding service in legal and human resource management during her tenure as the General Manager for human resource management of Maybank, Assistant Governor of Bank Negara Malaysia and Assistant Secretary General for Human Resource Management for the United Nations, New York enables her to give value added guidance to the Company pertaining to issues on human resource.

2. Re-election of Alois Hofbauer pursuant to Article 90.1 of the Company's Articles of Association

The recommendation to re-elect Alois Hofbauer is supported by his vast experience in the Nestlé Group and in-depth knowledge of the Company's business operations. His background in sales and marketing in various businesses, his knowledge and experience of the Nestlé operations and the Asian market is a most valuable asset to the Company with regards of driving performance. He has over 10 years' experience in general management position in the Nestlé Group in Asia. His views and approaches on operational matters, in particular sales, marketing and general management provides the Board a clear in-depth understanding of the business operations and strategies.

3, Re-appointment of Toh Puan Dato' Seri Hajjah Dr. Aishah Ong pursuant to Section 129 of the Companies Act 1965

Toh Puan Dato' Seri Hajjah Dr. Aishah Ong, age 71 was appointed as Independent Non-Executive Director of the Company on 28 November 2013.

The recommendation for the re-appointment of Toh Puan Dato' Seri Hajjah Dr. Aishah Ong is supported by her invaluable contributions to the Board and the Group.

She has also shown full commitment in discharging her responsibilities as a Director of the Company. Her previous knowledge and experience as a medical professional is also important to the Company as it further strengthens and positions itself to be the leading nutrition and wellness company globally. Her active involvement in non-governmental and charity organisations provides the Company valuable guidance on how the Company can contribute to the society through its corporate social responsibility (known as creating shared value). In light of the various challenges faced by the Company in certain segments of its business, Toh Puan Dato' Seri Hajjah Dr. Aishah Ong has been instrumental in providing guidance to the Company.

4 Re-appointment of Tan Sri Datuk Yong Poh Kon pursuant to Section 129 of the Companies Act 1965

Tan Sri Datuk Yong Poh Kon, age 70 was appointed as Independent Non-Executive Director of the Company on 25 April 2011.

The recommendation for the re-appointment of Tan Sri Datuk Yong Poh Kon is supported by his contributions to the Board of Directors through the sharing of his vast knowledge, experience and expertise as a businessman particularly in relation to manufacturing, export activities and industry practices. His experience as the former President of the Federation of Malaysian Manufacturers, as a current member of the Economic Council and former Co-Chair of PEMUDAH (a Special Taskforce to Facilitate Business) contributed greatly to the Company.

5. Retention of Tan Sri Dato' Seri Syed Anwar Jamalullail pursuant to Recommendation 3.3 of the MCCG 2012

Tan Sri Dato' Seri Syed Anwar Jamalullail age 64 was first appointed in as Non-Independent Non-Executive Director of the Company on 25 February 2002 and later re-designated to be Independent Non-Executive Director on 5 November 2004.

His position as an Independent Non-Executive Director has been assessed pursuant to Recommendation 3.2 of the MCCG 2012 and it has been agreed to retain Tan Sri Dato' Seri Syed Anwar Jamalullail as an Independent Non-Executive Director of the Board of Directors and as Chairman of the Audit Committee.

The recommendation is based on his exemplary leadership and dedication to his responsibilities as the Chairman of the Board. He has provided unwavering support to the Company's initiatives in implementing relevant strategies in moving the Company forward and strengthening the Company's credibility and reputation as the leader in the food and beverage industry. His tenure in the Board has given him an in depth understanding of the business environment in which the Company operates, including the challenges faced by the Company. His vast experience in the Company also allows him to provide guidance to the Management Team especially in setting the strategies and direction of the Company.

His leadership has ensured effective check and balance in the proceedings of the Board and the Board Committees and he encourages active participations from all members of the Board. Tan Sri is practical in his analysis and assessment, vocal in his outlook and views and has provided the Board with a strong and principled voice. His experience in various companies and capacities suits the Company's required mix of skills and Board diversity.

Tan Sri Dato' Seri Syed Anwar Jamalullail is a qualified Chartered Accountant from the Malaysia Institute of Accountants and also a Certified Practising Accountant from the Australian Society of Certified Practising Accountants.

Tan Sri Dato' Seri Syed Anwar Jamalullail holds a number of directorships. He is the Chairman of Cahya Mata Sarawak Berhad, Malakoff Corporation Berhad, Lembaga Zakat Selangor and Pulau Indah Ventures Sdn. Bhd. (a joint venture company between Khazanah Nasional Berhad and Temasek Holdings of Singapore).

All of the above Directors have complied with the various statutory provisions and other regulatory matters.

Information of each Director standing for re-election/re-appointment/retention is set out at pages 35 to 42 of the Corporate Report 2015.

Compensation Committee Report

MEMBERS

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

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

Dato' Frits van Dijk
Independent, Non-Executive Director
Member

Alois Hofbauer
Executive Director
Member

A. TERMS OF REFERENCE

The Compensation Committee was formed by the Board of Directors ("Board") and the principal responsibilities of the Compensation Committee are as follows:

1. Ensure that the remuneration package of the Board and the employees of the Group are benchmarked against industry standards in light of the Group's performance in the industry and to ensure market competitiveness;
2. Determine the Group's remuneration philosophy and principles to ensure that these are in line with the business strategy, objectives, values and long term interests of the Group and comply with all regulatory requirements;
3. Review the Group's remuneration practices in relation to the risk environment and ensure that remuneration does not encourage excessive risk-taking and is determined within the Group's risk management and control framework taking into account the long-term interests of shareholders, fund investors and other stakeholders;
4. Review and approve the Management's proposal for the salary increase package recommended by the Group Human Resource Department for subsequent approval by the Board;
5. Review the report on the compensation package disclosed in the Annual Report each year in line with applicable statutory and regulatory disclosure requirements;
6. Review the Company's employees turnover by category; and
7. Obtain the advice from external advisors, including compensation consultants, as it deems appropriate, and shall be directly responsible for the appointment, termination, compensation and oversight of the work of any external advisors engaged by the Committee.

B. THE PROCESS OF THE COMMITTEE

The Committee should be chaired by an Independent Director appointed by the Board amongst its members. The Chairman of the Committee is responsible for the conduct of the Committee's meetings. Regular meetings are fixed in a calendar year and the Chairman has the discretion to call for additional meetings whenever required. The quorum for the Compensation Committee meeting shall be at least three (3) members present at the meeting.

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

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

The Committee reviews at least once in every three (3) years the remuneration package of the Non-Executive Directors and makes its recommendation to the Board. In reviewing the remuneration package for the Non-Executive Directors, the Committee shall consider the need to remunerate appropriately, given the level of responsibility of its Directors. The Committee also reviews the appropriate incentives to nurture and retain quality Directors, if required, whilst being sensitive to the interests of other stakeholders, including shareholders and employees. If necessary, an external service provider with the necessary expertise is engaged to carry out the Board remuneration review and thereafter the Committee makes a recommendation to the Board.

Non-Executive Directors are paid fixed annual directors' fees as members of the Board and Board Committees. The members of the Board and Board Committees are also paid meeting attendance fees for their attendance at the respective meetings.

For the remuneration package of Executive Directors and the Management Team, the Committee is guided by the compensation framework developed by Nestlé S.A., which is the major shareholder of the Company. The remuneration package contains both fixed and performance-linked elements. These two (2) elements vary depending on the level of responsibility and complexity of the role. The Executive Directors and the Management Team are paid salaries, allowances, bonuses and other benefits given in accordance with the Corporate Expatriation Policy, whenever applicable. The performances of the Executive Directors are reviewed annually by Nestlé S.A. and adjustments to their remuneration are made based on their performance and contributions in the preceding year.

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

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

C. STATEMENT ON ACTIVITIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

In 2015, the Compensation Committee met four (4) times. The attendance of members was as follows:

No.	Compensation Committee Members	Meeting Attendance
1.	Dato' Mohd. Rafik Bin Shah Mohamad	4/4
2.	Tan Sri Datuk (Dr.) Rafiah Binti Salim	2/4
3.	Dato' Frits van Dijk	4/4
4.	Alois Hofbauer	4/4

Some of the key activities undertaken by the Compensation Committee included deliberation of the Company's remuneration direction for its employees and the basis of the market survey methodology used to ensure that the total remuneration package under the talent retention plan is competitive. The recommendations by the Compensation Committee were presented to the Board for its approval.

The Compensation Committee had also carried out a review of the Non-Executive Directors' remuneration whereby the Compensation Committee benchmarked against the non-executive directors' remuneration of other companies within the same industry. The recommendation of the Compensation Committee is then presented to the Board for its approval.

During the year in review, the Collective Agreement entered into by the Company with the respective unions were presented to the Compensation Committee.

The Compensation Committee was also briefed on the Executive Directors, the Management Team and the Leadership Team's remuneration package which is in accordance with the compensation framework of Nestlé S.A.

In addition to that, a review on the development and succession plans for the Management Team and the Leadership Team was also carried out by the Compensation Committee. This is to ensure that they are fairly rewarded for their individual contributions to the Company's overall performance and commensurate with their level of executive responsibilities.

The employees turnover rate by category and in comparison with the market turnover trend was also presented and discussed by the Compensation Committee annually.

Compensation Committee Report

The Compensation Committee annually reviews and updates its Term of Reference. The Compensation Committee had approved the revised Terms of Reference and the Compensation Committee Report, which was disclosed in the Annual Report 2014.

The Directors' remuneration paid in the financial year ended 31 December 2015 in aggregate, with categorisation into appropriate components, distinguishing between Executive and Non-Executive Directors which has been reviewed is as follows:

2015	**Executive Directors***	**Non-Executive Directors**
(MYR, in Gross)**		
Salaries	1,616,535.00	–
Directors Fees***	–	810,000
Emoluments****	1,186,303.00	104,000
Benefits*****	1,768,591.75	–
TOTAL	**4,571,429.75**	**914,000**

* *Includes a Director who resigned in 2014.*
** *Numbers are provided before tax.*
*** *Fees paid to Non-Executive Directors.*
**** *Other emoluments include bonuses, incentives, retirement benefits, provisions for leave passage, attendance fees 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)		
50,001 – 100,000	–	2
100,001 – 150,000	–	3
200,001 – 250,000	1	–
350,001 – 400,000	–	1
1,300,001 – 1,350,000	1	–
2,950,001 – 3,000,000	1	–
TOTAL	**3**	**6**

* *Includes a Director who resigned in 2014.*

Financial Calendar

DIVIDENDS

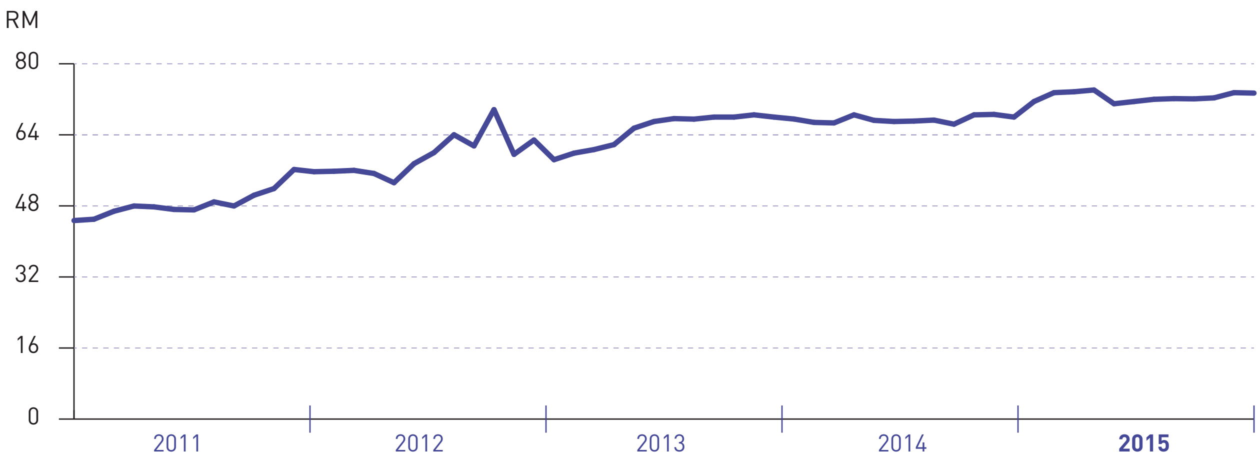
First Interim	– announced	– 12 August 2015
	– record date	– 28 August 2015
	– paid	– 10 September 2015
Second Interim	– announced	– 22 October 2015
	– record date	– 12 November 2015
	– paid	– 2 December 2015
Final/Special	– announced	– 23 February 2016
	– record date	– 19 May 2016
	– payable	– 2 June 2016

ANNUAL GENERAL MEETING – 28 April 2016

Share Performance

	Calendar Year				
	2015	**2014**	**2013**	**2012**	**2011**
During the year					
Highest – RM	**75.50**	69.48	69.50	70.20	57.00
Lowest – RM	**68.50**	63.50	58.10	51.50	43.34

SHARE PRICES (BURSA MALAYSIA) – CLOSE



Based on month-end closing price

Group Financial Highlights

		2015	2014	+/(-)
Turnover	**(RM'000)**	**4,837,957**	**4,808,933**	**0.6%**
Earnings/Cash Flow				
Profit before tax	(RM'000)	**727,711**	701,187	3.8%
% of turnover		**15.0%**	14.6%	
Profit after tax and minority interest	(RM'000)	**590,733**	550,384	7.3%
% of turnover		**12.2%**	11.4%	
Dividends paid & proposed (net)	(RM'000)	**609,700**	551,075	10.6%
Depreciation and amortisation of assets	(RM'000)	**125,845**	112,210	
Cash flow (net profit + depreciation + amortisation)	(RM'000)	**716,578**	662,594	
Capital expenditure	(RM'000)	**191,184**	361,008	
Shareholders' funds	(RM'000)	**708,596**	777,137	
Personnel	(no.)	**5,589**	5,663	
Factories	(no.)	**8**	7	
Per Share				
Market price[1]	(RM)	**73.40**	68.50	
Earnings[2]	(sen)	**251.91**	234.71	
Price earnings ratio		**29.14**	29.18	
Dividend (net)	(sen)	**260.00**	235.00	
Dividend yield	(%)	**3.5**	3.4	
Dividend cover[2]	(no.)	**1.0**	1.0	
Shareholders' funds	(RM)	**3.02**	3.31	
Net tangible assets[3]	(RM)	**2.75**	3.05	

Notes:

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

5 Years' Statistics

for the year ended 31 December

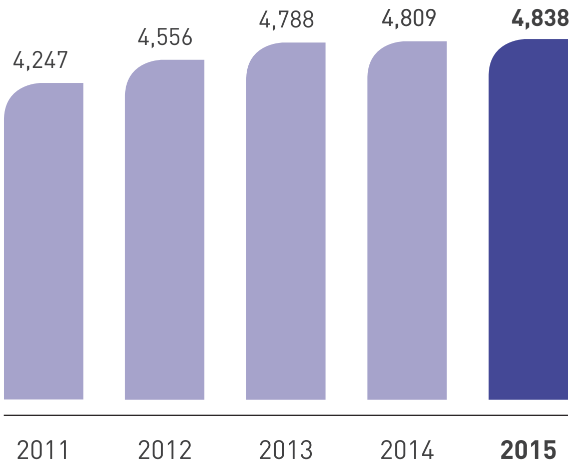
		2015 RM'000	2014 RM'000	2013 RM'000	2012 RM'000	2011 RM'000
Turnover		**4,837,957**	4,808,933	4,787,925	4,556,423	4,246,744
Earnings/Cash Flow						
Profit before tax		**727,711**	701,187	719,054	637,668	558,809
% of turnover		**15.0%**	14.6%	15.0%	14.0%	13.2%
Profit after tax and minority interest		**590,733**	550,384	561,701	505,352	427,128
% of turnover		**12.2%**	11.4%	11.7%	11.1%	10.1%
Dividends paid & proposed (net)		**609,700**	551,075	551,075	492,450	422,100
Depreciation and amortisation of assets		**125,845**	112,210	108,971	101,601	101,894
Cash flow (net profit						
+ depreciation + amortisation)		**716,578**	662,594	670,672	606,953	528,871
% of turnover		**14.8%**	13.8%	14.0%	13.3%	12.5%
Capital expenditure		**191,184**	361,008	212,217	158,442	93,015
Employment of Assets						
Property, plant and equipment		**1,369,874**	1,293,757	1,046,463	945,812	889,741
Associated company		**4,114**	3,631	3,619	3,217	3,210
Intangible assets		**62,814**	61,024	61,024	61,024	61,024
Deferred tax assets		**11,068**	27,958	25,775	32,412	18,460
Receivables, deposits & prepayments		**25,048**	23,576	21,866	22,001	23,802
Net current (liabilities)/assets		**(509,215)**	(412,734)	(141,875)	(88,689)	100,324
Total		**963,703**	997,212	1,016,872	975,777	1,096,561
Financed by						
Share capital		**234,500**	234,500	234,500	234,500	234,500
Reserves		**474,096**	542,637	581,944	516,706	418,219
Total shareholders' funds		**708,596**	777,137	816,444	751,206	652,719
Deferred tax liabilities		**77,539**	67,522	82,748	74,858	63,815
Retirement benefit liabilities		**81,117**	62,486	25,337	54,546	42,316
Borrowings		**96,451**	90,067	92,343	95,167	337,711
Total		**963,703**	997,212	1,016,872	975,777	1,096,561
Per Share						
Market price[1]	(RM)	**73.40**	68.50	68.00	62.84	56.20
Earnings[2]	(sen)	**251.91**	234.71	239.53	215.50	182.14
Price earnings ratio		**29.14**	29.18	28.39	29.16	30.86
Dividend (net)	(sen)	**260.00**	235.00	235.00	210.00	180.00
Dividend yield	(%)	**3.5**	3.4	3.5	3.3	3.2
Dividend cover[2]	(no.)	**1.0**	1.0	1.0	1.0	1.0
Shareholders' funds	(RM)	**3.02**	3.31	3.48	3.20	2.78
Net tangible assets[3]	(RM)	**2.75**	3.05	3.22	2.94	2.52
Personnel	(no.)	**5,578**	5,702	5,847	5,669	5,721
Factories	(no.)	**8**	7	7	7	7

Notes:

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

Financial Performance

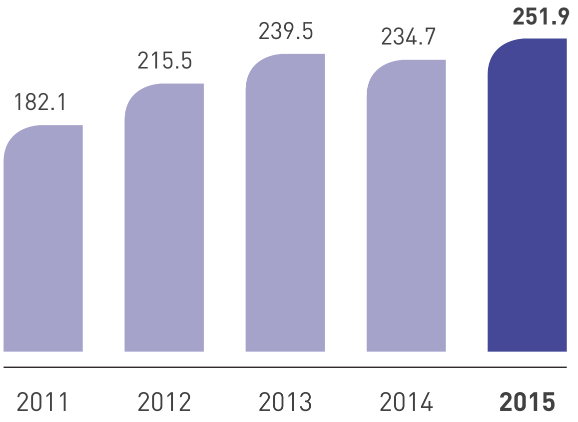
TURNOVER
RM Million



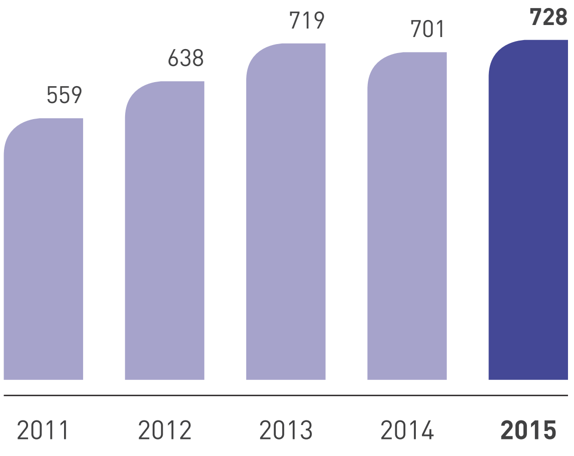
Notes:
As from 1 January 2012, certain allowances and discounts are disclosed as a deduction of sales in conformity with Nestlé S.A. Group policy and with the practice generally applies by consumer goods companies.

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

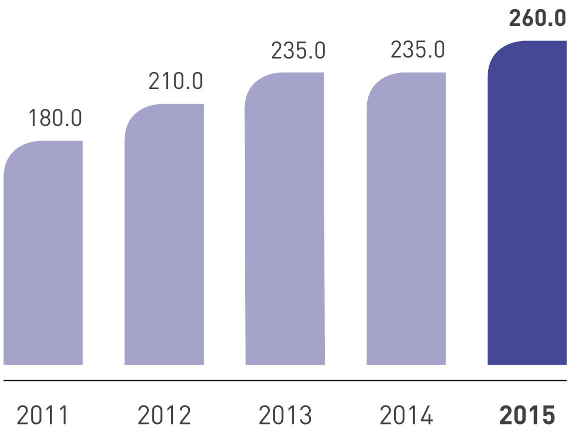
EARNINGS PER SHARE
Sen



PRE-TAX PROFIT
RM Million



NET DIVIDEND PER SHARE
Sen



Directors' Report

for the year ended 31 December 2015

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 2015.

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	590,733	609,758

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 175 sen per ordinary share, totalling RM410,375,000 in respect of the financial year ended 31 December 2014 on 27 May 2015;

ii) a first interim dividend of 65 sen per ordinary share, totalling RM152,425,000 in respect of the financial year ended 31 December 2015 on 10 September 2015; and

iii) a second interim dividend of 65 sen per ordinary share, totalling RM152,425,000 in respect of the financial year ended 31 December 2015 on 2 December 2015.

The Directors recommended a final dividend of 110 sen per ordinary share, totalling RM257,950,000, in respect of the financial year ended 31 December 2015 and a special dividend of 20 sen per ordinary share, totalling RM46,900,000.

Directors' Report

for the year ended 31 December 2015

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

DIRECTORS' INTERESTS IN SHARES

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

	Number of ordinary shares of RM1 each			
	At 1.1.2015	Acquired	Sold	At 31.12.2015
Shareholdings in which Directors have direct interest				
Interests in the Company				
Dato' Frits van Dijk	8,000	–	–	8,000

	Number of ordinary shares of CHF0.1 each			
	At 1.1.2015	Acquired	Sold	At 31.12.2015
Interests in Nestlé S.A., the holding company				
Dato' Frits van Dijk	240,000	–	–	240,000
Mr Alois Hofbauer	4,555	1,825	–	6,380
Mr Martin Peter Krügel	1,150	700	–	1,850

None of the other Directors holding office at 31 December 2015 had any interest in the ordinary shares of the Company and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the related companies) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate apart from the issue of the Performance 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.

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.

Directors' Report

for the year ended 31 December 2015

OTHER STATUTORY INFORMATION (CONTINUED)

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

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

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

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

In the opinion of the Directors, the financial performance of the Group and of the Company for the financial year ended 31 December 2015 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:

Alois Hofbauer

Martin Peter Krügel

Petaling Jaya, Malaysia
23 February 2016

Statements of Financial Position

as at 31 December 2015

	Note	Group		Company	
		2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
ASSETS					
Property, plant and equipment	3	**1,369,874**	1,293,757	**–**	–
Intangible assets	4	**62,814**	61,024	**–**	–
Investments in subsidiaries	5	**–**	–	**188,022**	188,022
Investment in an associate	6	**4,114**	3,631	**3,000**	3,000
Deferred tax assets	7	**11,068**	27,958	**–**	–
Trade and other receivables	8	**25,048**	23,576	**–**	–
Total non-current assets		**1,472,918**	1,409,946	**191,022**	191,022
Trade and other receivables	8	**581,918**	504,540	**383,615**	489,074
Inventories	9	**414,262**	370,291	**–**	–
Current tax assets		**5,331**	3,015	**62**	240
Cash and cash equivalents	10	**13,901**	15,504	**–**	–
Total current assets		**1,015,412**	893,350	**383,677**	489,314
Total assets		**2,488,330**	2,303,296	**574,699**	680,336
EQUITY					
Share capital		**234,500**	234,500	**234,500**	234,500
Reserves		**108,976**	32,668	**33,000**	33,000
Retained earnings		**365,120**	509,969	**305,667**	411,134
Total equity attributable to owners of the Company	11	**708,596**	777,137	**573,167**	678,634
LIABILITIES					
Loans and borrowings	12	**96,451**	90,067	**–**	–
Employee benefits	13	**81,117**	62,486	**–**	–
Deferred tax liabilities	7	**77,539**	67,522	**–**	–
Total non-current liabilities		**255,107**	220,075	**–**	–
Loans and borrowings	12	**253,034**	84,313	**–**	–
Trade and other payables	14	**1,231,605**	1,170,240	**1,532**	1,702
Current tax liabilities		**39,988**	51,531	**–**	–
Total current liabilities		**1,524,627**	1,306,084	**1,532**	1,702
Total liabilities		**1,779,734**	1,526,159	**1,532**	1,702
Total equity and liabilities		**2,488,330**	2,303,296	**574,699**	680,336

The notes on pages 51 to 101 are an integral part of these financial statements.

Statements of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2015

	Note	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
Revenue		**4,837,957**	4,808,933	**609,499**	551,375
Cost of sales		**(2,972,500)**	(3,108,981)	**–**	–
Gross profit		**1,865,457**	1,699,952	**609,499**	551,375
Other income		**1,476**	1,581	**–**	–
Selling and distribution expenses		**(927,626)**	(844,464)	**–**	–
Administrative expenses		**(143,704)**	(128,337)	**(1,894)**	(2,717)
Other expenses		**(35,426)**	(3,785)	**–**	–
Results from operating activities	15	**760,177**	724,947	**607,605**	548,658
Finance income		**1,127**	1,650	**3,107**	3,043
Finance costs		**(34,376)**	(25,722)	**–**	–
Net finance (costs)/income		**(33,249)**	(24,072)	**3,107**	3,043
Share of profit of an equity accounted associate, net of tax		**783**	312	**–**	–
Profit before tax		**727,711**	701,187	**610,712**	551,701
Income tax expense	17	**(136,978)**	(150,803)	**(954)**	(396)
Profit for the year		**590,733**	550,384	**609,758**	551,305
Other comprehensive income/(expense), net of tax					
Item that is or may be reclassified subsequently to profit or loss					
Cash flow hedge		**76,308**	(739)	**–**	–
Item that will not be reclassified subsequently to profit or loss					
Remeasurement of defined benefit liability		**(20,357)**	(37,877)	**–**	–
Other comprehensive income/(expense) for the year, net of tax	18	**55,951**	(38,616)	**–**	–
Total comprehensive income for the year		**646,684**	511,768	**609,758**	551,305
Basic and diluted earnings per ordinary share (sen)	19	**252**	235		

The notes on pages 51 to 101 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2015

		<----------- *Attributable to owners of the Company*				---------->
		<-------------- *Non-distributable*		-------------->	*Distributable*	
Group	**Note**	**Share capital RM'000**	**Share premium RM'000**	**Hedging reserve RM'000**	**Retained earnings RM'000**	**Total equity RM'000**
At 1 January 2014		234,500	33,000	407	548,537	816,444
Cash flow hedge		–	–	(739)	–	(739)
Remeasurement of defined benefit liability		–	–	–	(37,877)	(37,877)
Other comprehensive expense for the year		–	–	(739)	(37,877)	(38,616)
Profit for the year		–	–	–	550,384	550,384
Total comprehensive (expense)/income for the year		–	–	(739)	512,507	511,768
Dividends to owners of the Company	20	–	–	–	(551,075)	(551,075)
Total transactions with owners of the Company		–	–	–	(551,075)	(551,075)
At 31 December 2014/1 January 2015		**234,500**	**33,000**	**(332)**	**509,969**	**777,137**
Cash flow hedge		**–**	**–**	**76,308**	**–**	**76,308**
Remeasurement of defined benefit liability		**–**	**–**	**–**	**(20,357)**	**(20,357)**
Other comprehensive income/(expense) for the year		**–**	**–**	**76,308**	**(20,357)**	**55,951**
Profit for the year		**–**	**–**	**–**	**590,733**	**590,733**
Total comprehensive income for the year		**–**	**–**	**76,308**	**570,376**	**646,684**
Dividends to owners of the Company	20	**–**	**–**	**–**	**(715,225)**	**(715,225)**
Total transactions with owners of the Company		**–**	**–**	**–**	**(715,225)**	**(715,225)**
At 31 December 2015		**234,500**	**33,000**	**75,976**	**365,120**	**708,596**

The notes on pages 51 to 101 are an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2015

		<-- *Attributable to owners of the Company* -->			
		<----- *Non-distributable* ----->		*Distributable*	
Company	**Note**	**Share capital RM'000**	**Share premium RM'000**	**Retained earnings RM'000**	**Total equity RM'000**
At 1 January 2014		234,500	33,000	410,904	678,404
Profit and total comprehensive income for the year		-	-	551,305	551,305
Dividends to owners of the Company	20	-	-	(551,075)	(551,075)
Total transactions with owners of the Company		-	-	(551,075)	(551,075)
At 31 December 2014/1 January 2015		**234,500**	**33,000**	**411,134**	**678,634**
Profit and total comprehensive income for the year		**-**	**-**	**609,758**	**609,758**
Dividends to owners of the Company	20	**-**	**-**	**(715,225)**	**(715,225)**
Total transactions with owners of the Company		**-**	**-**	**(715,225)**	**(715,225)**
At 31 December 2015		**234,500**	**33,000**	**305,667**	**573,167**

The notes on pages 51 to 101 are an integral part of these financial statements.

Statements of Cash Flows

for the year ended 31 December 2015

	Note	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax		**727,711**	701,187	**610,712**	551,701
Adjustments for:					
Amortisation of intangible assets	4	**275**	–	**–**	–
Depreciation of property, plant and equipment	3	**125,570**	112,210	**–**	–
Dividend income		**–**	–	**(609,499)**	(551,375)
Expenses related to defined benefit plans	13	**8,932**	9,667	**–**	–
Finance costs		**34,376**	25,722	**–**	–
Finance income		**(1,127)**	(1,650)	**(3,107)**	(3,043)
Loss on disposal of property, plant and equipment	15	**429**	976	**–**	–
Property, plant and equipment written off	15	**850**	350	**–**	–
Share-based payments	15	**6,685**	9,147	**–**	–
Share of profit of an equity accounted associate, net of tax		**(783)**	(312)	**–**	–
Operating profit/(loss) before changes in working capital		**902,918**	857,297	**(1,894)**	(2,717)
Change in inventories		**(43,971)**	38,323	**–**	–
Change in trade and other payables		**24,482**	129,876	**(170)**	169
Change in trade and other receivables		**26,165**	(1,751)	**(567)**	(195)
Cash generated from/(used in) operations		**909,594**	1,023,745	**(2,631)**	(2,743)
Dividends received from subsidiaries		**–**	–	**715,225**	551,075
Employee benefits paid	13	**(17,087)**	(22,060)	**–**	–
Income tax paid		**(141,598)**	(145,128)	**(776)**	(600)
Net cash from operating activities		**750,909**	856,557	**711,818**	547,732
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment	*(ii)*	**(191,184)**	(361,008)	**–**	–
Acquisition of intangible asset		**(2,065)**	–	**–**	–
Dividends received from associate		**300**	300	**300**	300
Finance income received		**1,127**	1,650	**3,107**	3,043
Proceeds from disposal of property, plant and equipment		**854**	737	**–**	–
Net cash (used in)/from investing activities		**(190,968)**	(358,321)	**3,407**	3,343

Statements of Cash Flows

for the year ended 31 December 2015

	Note	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid to owners of the Company	20	**(715,225)**	(551,075)	**(715,225)**	(551,075)
Finance costs paid		**(34,376)**	(25,722)	**–**	–
Payment of finance lease liabilities		**(4,477)**	(4,638)	**–**	–
Proceeds from borrowings		**125,588**	54,946	**–**	–
Net cash used in financing activities		**(628,490)**	(526,489)	**(715,225)**	(551,075)
Net decrease in cash and cash equivalents		**(68,549)**	(28,253)	**–**	–
Cash and cash equivalents at 1 January	*(i)*	**(15,916)**	12,337	**–**	–
Cash and cash equivalents at 31 December	*(i)*	**(84,465)**	(15,916)	**–**	–

(i) CASH AND CASH EQUIVALENTS

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

	Note	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
Cash and bank balances	10	**13,901**	15,504	**–**	–
Bank overdraft	12	**(98,366)**	(31,420)	**–**	–
		(84,465)	(15,916)	**–**	–

(ii) ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM203,820,000 (2014: RM361,567,000), of which RM12,636,000 (2014: RM559,000) were acquired by means of finance leases.

The notes on pages 51 to 101 are an integral part of these financial statements.

Notes to the Financial Statements

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

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

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2015 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 2015 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 23 February 2016.

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 requirements of the Companies Act, 1965 in Malaysia.

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

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

- MFRS 14, *Regulatory Deferral Accounts*
- Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements*, MFRS 12, *Disclosure of Interests in Other Entities* and MFRS 128, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*
- Amendments to MFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to MFRS 101, *Presentation of Financial Statements – Disclosure Initiative*
- Amendments to MFRS 116, *Property, Plant and Equipment and MFRS 138, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 141, *Agriculture – Agriculture: Bearer Plants*
- Amendments to MFRS 119, *Employee Benefits (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 127, *Separate Financial Statements – Equity Method in Separate Financial Statements*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)*

Notes to the Financial Statements

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

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

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

- from the annual period beginning on 1 January 2016 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2016, except for MFRS 14, amendments to MFRS 5, 10, 11 and 141 which are not applicable to the Group and the Company.
- from the annual period beginning on 1 January 2018 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018.

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

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

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue – Barter Transactions Involving Advertising Services*.

The Group and the Company are currently assessing the financial impact that may arise from the adoption of MFRS 15.

(ii) MFRS 9, *Financial Instruments*

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

The Group and the Company are currently assessing the financial impact that may arise from the adoption of MFRS 9.

(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.

1. BASIS OF PREPARATION (CONTINUED)

(d) Use of estimates and judgements

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by Group entities, unless otherwise stated.

(a) Basis of consolidation

(i) Subsidiaries

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

The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive.

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

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

(ii) Loss of control

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

Notes to the Financial Statements

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.

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

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

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

When the Group's interest in an associate decreases but does not result in a loss of significant influence, any retained interest is not remeasured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

(iv) Transactions eliminated on consolidation

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

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

(b) Foreign currencies

Foreign currency transactions

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currencies (continued)

Foreign currency transactions (continued)

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting period, 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.

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

(b) Loans and receivables

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

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

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

Financial liabilities

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

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

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

(iii) Hedge accounting

Cash flow hedge

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

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

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

(iv) Derecognition

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

(iii) Depreciation (continued)

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.

(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) Intangible assets

(i) Goodwill

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Intangible assets (continued)

(ii) Development cost

Expenditure on development activities, whereby the application of research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalised includes the cost of materials, direct labour and overheads costs that are directly attributable to preparing the asset for its intended use. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less any accumulated amortisation and any accumulated impairment losses.

(iii) Amortisation

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

Other intangible assets are amortised from the date that they are available for use. Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful lives of the development cost is 5 years.

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

(g) Inventories

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

The cost of inventories is 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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value with original maturities of 3 months or less, and are used by the Group in the management of their short term commitments. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(i) Impairment

(i) Financial assets

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

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

(ii) Other assets

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment (continued)

(ii) Other assets (continued)

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

(j) Employee benefits

(i) Short-term employee benefits

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

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

(ii) State plans

The Group's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Defined benefit plans

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

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

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

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Employee benefits (continued)

(iv) Termination benefits

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

(v) Share-based payment transactions

Performance Stock Unit Plan ("PSUP")

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

(k) Provisions

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

Restructuring

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

(l) Revenue and other income

(i) Goods sold

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

(ii) Dividend income

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

(iii) Finance income

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Borrowing costs

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

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

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

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

(n) Income tax

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

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

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

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

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Earnings per share

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

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

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

(p) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segments 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.

(q) Fair value measurement

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 : unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

3. PROPERTY, PLANT AND EQUIPMENT

Group	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 2014	96,007	386,751	1,676,536	14,941	94,634	108,930	2,377,799
Additions	320	20,028	102,125	386	6,088	232,620	361,567
Disposals	–	(30)	(10,286)	(553)	(455)	–	(11,324)
Written off	–	(7)	(6,492)	–	(36)	–	(6,535)
Transfer in/(out)	–	9,077	34,953	–	193	(44,223)	–
At 31 December 2014/ 1 January 2015	**96,327**	**415,819**	**1,796,836**	**14,774**	**100,424**	**297,327**	**2,721,507**
Additions	**1,163**	**58,816**	**112,993**	**2,520**	**8,349**	**19,979**	**203,820**
Disposals	**–**	**(9)**	**(22,667)**	**(1,568)**	**(16,394)**	**–**	**(40,638)**
Written off	**–**	**(118)**	**(20,522)**	**–**	**(1,658)**	**–**	**(22,298)**
Transfer in/(out)	**27**	**106,154**	**185,963**	**–**	**2,981**	**(295,125)**	**–**
At 31 December 2015	**97,517**	**580,662**	**2,052,603**	**15,726**	**93,702**	**22,181**	**2,862,391**
Depreciation and impairment loss							
At 1 January 2014							
Accumulated depreciation	12,635	119,713	1,101,706	7,389	68,780	–	1,310,223
Accumulated impairment loss	–	6,284	14,682	–	147	–	21,113
	12,635	125,997	1,116,388	7,389	68,927	–	1,331,336
Depreciation for the year	1,717	10,117	90,655	1,699	8,022	–	112,210
Disposals	–	(8)	(8,722)	(460)	(421)	–	(9,611)
Written off	–	(2)	(6,155)	–	(28)	–	(6,185)
At 31 December 2014							
Accumulated depreciation	14,352	129,820	1,177,484	8,628	76,353	–	1,406,637
Accumulated impairment loss	–	6,284	14,682	–	147	–	21,113
	14,352	136,104	1,192,166	8,628	76,500	–	1,427,750

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							
At 1 January 2015							
Accumulated depreciation	**14,352**	**129,820**	**1,177,484**	**8,628**	**76,353**	**–**	**1,406,637**
Accumulated impairment loss	**–**	**6,284**	**14,682**	**–**	**147**	**–**	**21,113**
	14,352	**136,104**	**1,192,166**	**8,628**	**76,500**	**–**	**1,427,750**
Depreciation for the year	**1,659**	**14,250**	**98,929**	**1,691**	**9,041**	**–**	**125,570**
Disposals	**–**	**(3)**	**(21,883)**	**(1,150)**	**(16,319)**	**–**	**(39,355)**
Written off	**–**	**(29)**	**(19,771)**	**–**	**(1,648)**	**–**	**(21,448)**
At 31 December 2015							
Accumulated depreciation	**16,011**	**144,038**	**1,234,759**	**9,169**	**67,427**	**–**	**1,471,404**
Accumulated impairment loss	**–**	**6,284**	**14,682**	**–**	**147**	**–**	**21,113**
	16,011	**150,322**	**1,249,441**	**9,169**	**67,574**	**–**	**1,492,517**
Carrying amounts							
At 1 January 2014	83,372	260,754	560,148	7,552	25,707	108,930	1,046,463
At 31 December 2014/ 1 January 2015	**81,975**	**279,715**	**604,670**	**6,146**	**23,924**	**297,327**	**1,293,757**
At 31 December 2015	**81,506**	**430,340**	**803,162**	**6,557**	**26,128**	**22,181**	**1,369,874**

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Leased plant and machinery

At 31 December 2015, the net carrying amount of leased plant and machinery of the Group was RM13,487,000 (2014: RM6,494,000).

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 (note 12).

4. INTANGIBLE ASSETS

Group	Goodwill RM'000	Development cost RM'000	Total RM'000
Cost			
At 1 January 2014/31 December 2014/1 January 2015	**61,024**	**–**	**61,024**
Addition	**–**	**2,065**	**2,065**
At 31 December 2015	**61,024**	**2,065**	**63,089**
Amortisation			
At 1 January 2014/31 December 2014/1 January 2015	**–**	**–**	**–**
Amortisation for the year	**–**	**275**	**275**
At 31 December 2015	**–**	**275**	**275**
Carrying amounts			
At 1 January 2014	61,024	–	61,024
At 31 December 2014/1 January 2015	**61,024**	**–**	**61,024**
At 31 December 2015	**61,024**	**1,790**	**62,814**

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.

Notes to the Financial Statements

4. INTANGIBLE ASSETS (CONTINUED)

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

- Cash flows were projected based on actual operating results and financial budgets approved by management covering a 3-year business plan.
- The anticipated revenue growth rate for the 3-year business plan is estimated to be 5% to 6% per annum.
- The unit will continue its operations indefinitely with earnings before interest and tax ("EBIT") terminal growth rate of 1% per annum.
- A discount rate of 7.2% (2014: 6.4%) 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	
	2015 RM'000	**2014 RM'000**
At cost		
Unquoted shares	**188,022**	188,022

Details of the subsidiaries are as follows:

Name of entity	Principal place of business/ Country of incorporation	Principal activities	Effective ownership interest and voting interest 2015 %	2014 %
Nestlé Products Sdn. Bhd.	Malaysia	Marketing and sales of ice-cream, powdered milk and drinks, liquid milk and juices, instant coffee and other beverages, chocolate confectionery products, instant noodles, culinary products, cereals, yogurt and related products	**100**	100
Nestlé Manufacturing (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing and sales of ice-cream, powdered milk and drinks, liquid milk and juices, instant coffee and other beverages, instant noodles, culinary products, cereals, yogurt and related products	**100**	100
Nestlé Asean (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing and sales of chocolate confectionery products	**100**	100
Nestlé Foods (Malaysia) Sdn. Bhd.	Malaysia	Ceased operations	**100**	100

6. INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
At cost				
Unquoted shares	**3,000**	3,000	**3,000**	3,000
Share of post-acquisition reserves	**1,114**	631	**–**	–
	4,114	3,631	**3,000**	3,000

Details of the associate are as follows:

Name of entity	Principal place of business/ Country of incorporation	Principal activities	Effective ownership interest and voting interest 2015 %	Effective ownership interest and voting interest 2014 %
Nihon Canpack (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing and sales of canned beverages	**20**	20

7. DEFERRED TAX ASSETS/(LIABILITIES)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Property, plant and equipment	**–**	–	**(120,758)**	(105,458)	**(120,758)**	(105,458)
Employee benefit plans	**23,729**	17,300	**–**	–	**23,729**	17,300
Provisions	**15,597**	30,740	**–**	–	**15,597**	30,740
Hedging reserve	**–**	105	**(23,992)**	–	**(23,992)**	105
Unutilised tax incentives	**38,953**	17,749	**–**	–	**38,953**	17,749
Tax assets/(liabilities)	**78,279**	65,894	**(144,750)**	(105,458)	**(66,471)**	(39,564)
Set off of tax	**(67,211)**	(37,936)	**67,211**	37,936	**–**	–
Net tax assets/(liabilities)	**11,068**	27,958	**(77,539)**	(67,522)	**(66,471)**	(39,564)

Notes to the Financial Statements

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

Movement in temporary differences during the year

Group	At 1.1.2014 RM'000	Recognised in profit or loss (note 17) RM'000	Recognised in other comprehensive income (note 18) RM'000	At 31.12.2014/ 1.1.2015 RM'000	Recognised in profit or loss (note 17) RM'000	Recognised in other comprehensive income (note 18) RM'000	At 31.12.2015 RM'000
Property, plant and equipment	(100,902)	(4,556)	–	**(105,458)**	**(15,300)**	**–**	**(120,758)**
Employee benefit plans	6,335	(700)	11,665	**17,300**	**–**	**6,429**	**23,729**
Provisions	20,522	10,218	–	**30,740**	**(15,143)**	**–**	**15,597**
Hedging reserve	(136)	–	241	**105**	**–**	**(24,097)**	**(23,992)**
Unutilised tax incentives	17,208	541	–	**17,749**	**21,204**	**–**	**38,953**
	(56,973)	5,503	11,906	**(39,564)**	**(9,239)**	**(17,668)**	**(66,471)**

8. TRADE AND OTHER RECEIVABLES

	Note	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
Non-current					
Loans to employees		**25,048**	23,576	**–**	–
Current					
Trade					
Trade receivables		**185,785**	188,053	**–**	–
Less: Impairment loss		**(9,711)**	(5,356)	**–**	–
		176,074	182,697	**–**	–
Amounts due from related companies	8.1	**156,897**	147,871	**–**	–
Amount due from an associate	8.1	**9,367**	6,264	**–**	–
Designated as hedging instruments					
– Commodity futures		**5,566**	1,844	**–**	–
– Forward exchange contracts		**107,370**	15,470	**–**	–
		455,274	354,146	**–**	–

8. TRADE AND OTHER RECEIVABLES (CONTINUED)

	Note	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
Current (continued)					
Non-trade					
Amounts due from subsidiaries	8.2	**–**	–	**383,507**	488,954
Amounts due from related companies	8.1	**24,933**	26,601	**–**	–
Other receivables, deposits and prepayments	8.3	**101,711**	123,793	**108**	120
		126,644	150,394	**383,615**	489,074
		581,918	504,540	**383,615**	489,074
Total		**606,966**	528,116	**383,615**	489,074

8.1 Amounts due from related companies and an associate

The trade receivables due from related companies and an associate are subject to the normal trade terms. The non-trade receivables due from related companies are unsecured, interest free and repayable on demand, except for advances to related companies of RM24,582,000 (2014: RM26,510,000) which is subject to interest at 3.29% to 4.08% (2014: 3.80% to 4.05%) per annum.

8.2 Amounts due from subsidiaries

The non-trade receivables due from subsidiaries are unsecured, interest free and repayable on demand, except for advances to a subsidiary of RM79,158,000 (2014: RM78,310,000) which is subject to interest at 3.45% to 4.08% (2014: 3.80% to 4.05%) per annum.

8.3 Other receivables, deposits and prepayments

Included in other receivables, deposits and prepayments of the Group are loans to employees of RM12,798,000 (2014: RM11,568,000) which are unsecured and interest free and down payment to vendors of RM8,190,000 (2014: RM58,928,000).

Notes to the Financial Statements

9. INVENTORIES

	Group	
	2015 RM'000	**2014 RM'000**
Raw and packaging materials	**166,315**	158,543
Work-in-progress	**22,340**	22,673
Finished goods	**202,113**	165,165
Spare parts	**23,494**	23,910
	414,262	370,291
Recognised in profit or loss		
– Inventories recognised as cost of sales	**2,679,176**	2,813,131

10. CASH AND CASH EQUIVALENTS

	Group	
	2015 RM'000	**2014 RM'000**
Cash and bank balances	**13,901**	15,504

11. CAPITAL AND RESERVES

Share capital

	Group and Company			
	Amount 2015 RM'000	**Number of shares 2015 '000**	**Amount 2014 RM'000**	**Number of shares 2014 '000**
Authorised				
Ordinary shares of RM1 each	**300,000**	**300,000**	300,000	300,000
Issued and fully paid shares classified as equity instruments				
Ordinary shares of RM1 each	**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.

11. CAPITAL AND RESERVES (CONTINUED)

Share premium

Share premium relates to the amount that ordinary shareholders 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 2015 RM'000	Group 2014 RM'000
Non-current			
Loan from a related company – unsecured		**84,264**	84,264
Finance lease liabilities	12.1	**12,187**	5,803
		96,451	90,067
Current			
Finance lease liabilities	12.1	**4,668**	2,893
Bank overdraft – unsecured		**98,366**	31,420
Revolving credit – unsecured		**150,000**	50,000
		253,034	84,313
Total		**349,485**	174,380

12.1 Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Future minimum lease payments 2015 RM'000	Interest 2015 RM'000	Present value of minimum lease payments 2015 RM'000	Future minimum lease payments 2014 RM'000	Interest 2014 RM'000	Present value of minimum lease payments 2014 RM'000
Less than one year	**5,507**	**839**	**4,668**	3,320	427	2,893
Between one and five years	**13,446**	**1,259**	**12,187**	6,225	422	5,803
	18,953	**2,098**	**16,855**	9,545	849	8,696

Notes to the Financial Statements

13. EMPLOYEE BENEFITS

13.1 Retirement benefits

	Group	
	2015 **RM'000**	**2014** **RM'000**
Net defined benefit liability/Total employee benefits liabilities	**81,117**	62,486

The Group operates a defined benefit scheme which is administered by Nestlé Malaysia Group Retirement Scheme.

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.

Majority of the employees had their Scheme benefits discontinued from 1 August 2015. Their cash balance sums as of 31 July 2015 were transferred to EPF on August 2015. The independent actuary had calculated the curtailment gain from the above exercise to be RM4,849,000 which has been recognised in the profit or loss account.

Funding

The plan is fully funded by the Group's subsidiaries. The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. Employees are not required to contribute to the plans.

13. EMPLOYEE BENEFITS (CONTINUED)

13.1 Retirement benefits (continued)

Movement in net defined benefit liability

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

Group	Defined benefit obligation RM'000	Fair value of plan assets RM'000	Net defined benefit liability RM'000
At 1 January 2015	291,327	(228,841)	62,486
Included in profit or loss			
Current service cost	5,759	–	5,759
Interest cost/(income)	14,249	(10,511)	3,738
Curtailment gain	(4,849)	–	(4,849)
Past service cost of benefits	4,284	–	4,284
	19,443	(10,511)	8,932
Included in other comprehensive income			
Remeasurement loss:			
Actuarial loss arising from:			
- Financial assumptions	4,047	–	4,047
- Experience adjustments	11,412	–	11,412
Return on plan assets, excluding interest income	–	11,327	11,327
	15,459	11,327	26,786
Other			
Contributions paid by the employer	–	(17,087)	(17,087)
Benefits paid	(139,722)	139,722	–
At 31 December 2015	186,507	(105,390)	81,117

Notes to the Financial Statements

13. EMPLOYEE BENEFITS (CONTINUED)

13.1 Retirement benefits (continued)

Movement in net defined benefit liability (continued)

Group	Defined benefit obligation RM'000	Fair value of plan assets RM'000	Net defined benefit liability RM'000
At 1 January 2014	246,807	(221,470)	25,337
Included in profit or loss			
Current service cost	8,020	–	8,020
Interest cost/(income)	15,433	(13,786)	1,647
	23,453	(13,786)	9,667
Included in other comprehensive income			
Remeasurement loss:			
Actuarial loss arising from:			
– Financial assumptions	19,325	–	19,325
– Experience adjustments	23,199	–	23,199
Return on plan assets, excluding interest income	–	7,018	7,018
	42,524	7,018	49,542
Other			
Contributions paid by the employer	–	(22,060)	(22,060)
Benefits paid	(21,457)	21,457	–
At 31 December 2014	291,327	(228,841)	62,486

Plan assets

Plan assets comprise:

	Group	
	2015 RM'000	**2014 RM'000**
Equity securities	**48,982**	106,776
Government bonds	**24,794**	48,191
Corporate bonds	**25,000**	25,000
Unit trusts	**–**	10,000
Cash and cash equivalents	**4,905**	29,817
Others	**1,709**	9,057
	105,390	228,841

The pension fund has a strategic asset mix policy comprising 50% equity securities, 30% bonds and 20% other investments.

13. EMPLOYEE BENEFITS (CONTINUED)

13.1 Retirement benefits (continued)

Defined benefit obligation

Actuarial assumptions

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

	Group	
	2015	**2014**
Discount rate	**5.75%**	6.00%
Expected return on plan assets	**5.75%**	6.00%
Future salary increase rate	**N/A***	4.50%

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

At 31 December 2015, the weighted-average duration of the defined benefit obligation was 9.84 years.

* The assumption of future salary increase rate will no longer be applicable as a result of the transfer of the Scheme to EPF during the year.

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	Group	
	Defined benefit obligation	
	Increase RM'000	**Decrease RM'000**
2015		
Discount rate (0.5% movement)	**(7,922)**	**8,562**
Future pension growth (0.5% movement)	**923**	**(923)**
Future mortality (1 year movement)	**(5,225)**	**4,324**
2014		
Discount rate (0.5% movement)	(12,965)	14,011
Future salary growth (0.5% movement)	1,740	(1,655)
Future pension growth (0.5% movement)	871	(871)
Future mortality (1 year movement)	(3,985)	3,900

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

Notes to the Financial Statements

14. TRADE AND OTHER PAYABLES

		Group		Company	
	Note	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Trade					
Trade payables		**797,326**	646,950	**–**	–
Amounts due to related companies	14.1	**97,835**	111,748	**154**	–
Amount due to an associate	14.1	**25,436**	18,915	**–**	–
Designated as hedging instruments					
– Commodity futures		**10,194**	6,962	**–**	–
– Forward exchange contracts		**5,576**	18,782	**–**	–
		936,367	803,357	**154**	–
Non-trade					
Amounts due to related companies	14.1	**104,006**	80,086	**270**	–
Other payables		**46,470**	162,464	**221**	380
Accrued expenses		**144,762**	124,333	**887**	1,322
		295,238	366,883	**1,378**	1,702
Total		**1,231,605**	1,170,240	**1,532**	1,702

14.1 Amounts due to related companies and an associate

The trade payables due to related companies and an associate are subject to the normal trade terms. The non-trade payables due to related companies are unsecured, interest free and repayable on demand, except for advances from related companies of RM103,282,000 (2014: RM79,800,000) which is subject to interest at 3.51% to 4.08% (2014: 3.80% to 4.05%) per annum.

15. RESULTS FROM OPERATING ACTIVITIES

		Group		Company	
	Note	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Results from operating activities is arrived at after charging:					
Auditors' remuneration*					
– Statutory audit KPMG in Malaysia		**288**	524	**75**	137
– Other services KPMG in Malaysia		**230**	148	**108**	140
Affiliates of KPMG in Malaysia		**25**	24	**1**	1
Depreciation of property, plant and equipment	3	**125,570**	112,210	**–**	–
Impairment loss on trade receivables (net)		**4,355**	1,239	**–**	–
Loss on disposal of property, plant and equipment		**429**	976	**–**	–
Net foreign exchange loss – Unrealised		**8,537**	3,564	**–**	–
Personnel expenses (including key management personnel) – Contributions to Employees Provident Fund		**46,241**	40,385	**–**	–
– Expenses related to defined benefit plans	13	**8,932**	9,667	**–**	–
– Share-based payments		**6,685**	9,147	**–**	–
– Wages, salaries and others		**479,942**	471,856	**–**	–
Property, plant and equipment written off		**850**	350	**–**	–
Rental expenses on land and buildings		**52,907**	51,580	**–**	–
and after crediting:					
Dividend income from – Subsidiaries (unquoted)		**–**	–	**609,199**	551,075
– Associate (unquoted)		**–**	–	**300**	300
Net foreign exchange gain					
– Realised		**10,736**	1,024	**–**	–

* The reduction in the fees for the statutory audit is a result of the centralisation of Audit activities from the local Nestlé companies to the global Head office in Switzerland. The increase of the fees for other services is a result of one-time consultancy work in context with the GST implementation.

Notes to the Financial Statements

16. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations are as follows:

	Group		Company	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Directors				
– Fees	**876**	1,276	**876**	1,276
– Remuneration	**4,878**	5,379	**–**	–
– Other short-term employee benefits (including estimated monetary value of benefits-in-kind)	**755**	855	**40**	50
Total short-term employee benefits	**6,509**	7,510	**916**	1,326
Post-employment benefits	**433**	436	**–**	–
Share-based payments	**1,138**	1,604	**–**	–
	8,080	9,550	**916**	1,326
Other key management personnel				
– Short-term employee benefits	**10,387**	10,251	**–**	–
– Post-employment benefits	**650**	584	**–**	–
– Share-based payments	**2,324**	2,520	**–**	–
	13,361	13,355	**–**	–
	21,441	22,905	**916**	1,326

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

	Note	Group 2015 RM'000	Group 2014 RM'000	Company 2015 RM'000	Company 2014 RM'000
Recognised in the profit or loss					
Income tax expense		**136,978**	150,803	**954**	396
Major components of income tax expense include:					
Current tax expense					
Malaysian					
– current year		**143,332**	161,388	**511**	396
– prior year		**(15,593)**	(5,082)	**443**	–
Total current tax recognised in profit or loss		**127,739**	156,306	**954**	396
Deferred tax expense					
Reversal of temporary differences		**(7,822)**	(361)	**–**	–
Change in tax rate		**299**	(2,528)	**–**	–
Under/(Over) provided in prior years		**16,762**	(2,614)	**–**	–
Total deferred tax recognised in profit or loss	7	**9,239**	(5,503)	**–**	–
Total income tax expense		**136,978**	150,803	**954**	396
Reconciliation of tax expense					
Profit for the year		**590,733**	550,384	**609,758**	551,305
Total income tax expense		**136,978**	150,803	**954**	396
Profit excluding tax		**727,711**	701,187	**610,712**	551,701
Income tax calculated using Malaysian tax rate of 25%		**181,928**	175,297	**152,678**	137,925
Non-deductible expenses		**4,084**	3,730	**208**	315
Tax exempt income		**–**	–	**(152,375)**	(137,844)
Tax incentives		**(52,224)**	(20,976)	**–**	–
Change in tax rate		**299**	(2,528)	**–**	–
Other items		**1,722**	2,976	**–**	–
		135,809	158,499	**511**	396
(Over)/Under provided in prior years					
– Current tax		**(15,593)**	(5,082)	**443**	–
– Deferred tax		**16,762**	(2,614)	**–**	–
		1,169	(7,696)	**443**	–
		136,978	150,803	**954**	396

Notes to the Financial Statements

18. OTHER COMPREHENSIVE INCOME/(EXPENSE)

Group	2015 Before tax RM'000	2015 Tax (expense)/ benefit RM'000	2015 Net of tax RM'000	2014 Before tax RM'000	2014 Tax (expense)/ benefit RM'000	2014 Net of tax RM'000
Item that is or may be reclassified subsequently to profit or loss						
Cash flow hedge						
– Gains/(Losses) arising during the year	**110,077**	**(26,418)**	**83,659**	11,543	(2,770)	8,773
– Reclassification adjustments for losses included in profit or loss	**(9,672)**	**2,321**	**(7,351)**	(12,523)	3,005	(9,518)
	100,405	**(24,097)**	**76,308**	(980)	235	(745)
– Change of tax rate	**–**	**–**	**–**	–	6	6
	100,405	**(24,097)**	**76,308**	(980)	241	(739)
Item that will not be reclassified subsequently to profit or loss						
Remeasurement of defined benefit liability	**(26,786)**	**6,429**	**(20,357)**	(49,542)	11,890	(37,652)
– Change of tax rate	**–**	**–**	**–**	–	(225)	(225)
	(26,786)	**6,429**	**(20,357)**	(49,542)	11,665	(37,877)
	73,619	**(17,668)**	**55,951**	(50,522)	11,906	(38,616)

19. EARNINGS PER ORDINARY SHARE – BASIC AND DILUTED

The calculation of earnings per ordinary share for the year ended 31 December 2015 was based on the profit attributable to ordinary shareholders of RM590.7 million (2014: RM550.4 million) and 234.5 million (2014: 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
2015			
Interim 2015 ordinary – first	**65**	**152,425**	**10 September 2015**
– second	**65**	**152,425**	**2 December 2015**
Final 2014 ordinary	**175**	**410,375**	**27 May 2015**
Total amount		**715,225**	
2014			
Interim 2014 ordinary	60	140,700	24 September 2014
Final 2013 ordinary	175	410,375	5 June 2014
Total amount		551,075	

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

	Sen per share	Total amount RM'000
Final 2015 ordinary	**110**	**257,950**
Special	**20**	**46,900**
		304,850

Notes to the Financial Statements

21. OPERATING SEGMENTS

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

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

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

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

	Food and beverages		Others		Total	
Group	**2015 RM'000**	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Segment revenue and results						
Revenue	**3,875,100**	3,905,872	**962,857**	903,061	**4,837,957**	4,808,933
Operating profit	**627,916**	601,006	**132,873**	126,412	**760,789**	727,418
Included in the measure of segment operating profit are:						
Depreciation on property, plant and equipment	**113,520**	100,491	**12,050**	11,719	**125,570**	112,210

Reconciliations of reportable segment profit or loss

	Group	
	2015 RM'000	**2014 RM'000**
Profit or loss		
Total profit for reportable segments	**760,789**	727,418
Finance costs	**(34,376)**	(25,722)
Finance income	**1,127**	1,650
Other unallocated expenses	**(612)**	(2,471)
Share of profit of an associate not included in reportable segments	**783**	312
Consolidated profit before tax	**727,711**	701,187

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.

2015	Carrying amount RM'000	L&R/ (OL) RM'000	Derivatives designated as hedging instruments RM'000
Financial assets			
Group			
Trade and other receivables	601,504	488,568	112,936
Cash and cash equivalents	13,901	13,901	–
	615,405	502,469	112,936
Company			
Trade and other receivables	383,615	383,615	–
Financial liabilities			
Group			
Loans and borrowings	(349,485)	(349,485)	–
Trade and other payables	(1,231,605)	(1,215,835)	(15,770)
	(1,581,090)	(1,565,320)	(15,770)
Company			
Trade and other payables	(1,532)	(1,532)	–

Notes to the Financial Statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.1 Categories of financial instruments (continued)

2014	Carrying amount RM'000	L&R/ (OL) RM'000	Derivatives designated as hedging instruments RM'000
Financial assets			
Group			
Trade and other receivables	523,127	505,813	17,314
Cash and cash equivalents	15,504	15,504	–
	538,631	521,317	17,314
Company			
Trade and other receivables	489,074	489,074	–
Financial liabilities			
Group			
Loans and borrowings	(174,380)	(174,380)	–
Trade and other payables	(1,170,240)	(1,144,496)	(25,744)
	(1,344,620)	(1,318,876)	(25,744)
Company			
Trade and other payables	(1,702)	(1,702)	–

22.2 Net gains and losses arising from financial instruments

	Group		Company	
	2015 RM'000	2014 RM'000	**2015 RM'000**	2014 RM'000
Net (losses)/gains on:				
Fair value through profit or loss				
– Designated upon initial recognition	**4,471**	3,786	**–**	–
Loans and receivables	**(3,229)**	411	**3,107**	3,043
Financial liabilities measured at amortised cost	**(59,544)**	(22,434)	**–**	–
	(58,302)	(18,237)	**3,107**	3,043

22. FINANCIAL INSTRUMENTS (CONTINUED)

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 amounts due from related companies. The Company's exposure to credit risk arises mainly from amounts due from subsidiaries.

Receivables

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk, credit quality and collateral

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

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

Receivables are partially secured either by bank guarantees or traded shares. As at the end of the reporting period, the total collateral assigned to the Group was RM40,511,000 (2014: RM35,907,000).

Notes to the Financial Statements

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
2015			
Not past due	**132,484**	**–**	**132,484**
Past due 0 – 30 days	**30,702**	**–**	**30,702**
Past due 31 – 120 days	**12,138**	**–**	**12,138**
Past due more than 120 days	**10,461**	**(9,711)**	**750**
	185,785	**(9,711)**	**176,074**
2014			
Not past due	177,274	–	177,274
Past due 0 – 30 days	1,943	–	1,943
Past due 31 – 120 days	1,488	–	1,488
Past due more than 120 days	7,348	(5,356)	1,992
	188,053	(5,356)	182,697

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

	Group	
	2015 RM'000	**2014 RM'000**
At 1 January	**5,356**	4,117
Impairment loss recognised	**4,801**	1,248
Impairment loss reversed	**(446)**	(9)
At 31 December	**9,711**	5,356

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

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

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.4 Credit risk (continued)

Receivables (continued)

Impairment losses (continued)

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

Amounts due from subsidiaries

Risk management objectives, policies and processes for managing the risk

The 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 is 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.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Notes to the Financial Statements

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
2015						
Non-derivative financial liabilities						
Finance lease liabilities	16,855	5.00	18,953	5,507	4,870	8,576
Bank overdraft – unsecured	98,366	3.60	98,366	98,366	–	–
Revolving credit – unsecured	150,000	3.53	150,000	150,000	–	–
Loan from a related company – unsecured	84,264	3.88 – 4.02	90,888	3,312	87,576	–
Advances from related companies	103,282	3.51 – 4.08	103,282	103,282	–	–
Trade and other payables, excluding derivatives	1,112,561	–	1,112,561	1,112,561	–	–
	1,565,328		1,574,050	1,473,028	92,446	8,576
Derivative financial liabilities/ (assets)						
Forward exchange contracts (gross settled)						
– Outflow	–	–	1,197,953	1,197,953	–	–
– Inflow	(101,794)	–	(1,299,747)	(1,299,747)	–	–
Commodity futures	4,628	–	4,628	4,628	–	–
	1,468,162		1,476,884	1,375,862	92,446	8,576

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
2014						
Non-derivative financial liabilities						
Finance lease liabilities	8,696	5.00	9,545	3,320	2,967	3,258
Bank overdraft – unsecured	31,420	3.60	31,420	31,420	–	–
Revolving credit – unsecured	50,000	3.60	50,000	50,000	–	–
Loan from a related company – unsecured	84,264	3.41 – 3.94	90,904	3,320	87,584	–
Advances from related companies	79,800	3.80 – 4.05	79,800	79,800	–	–
Trade and other payables, excluding derivatives	1,064,696	–	1,064,696	1,064,696	–	–
	1,318,876		1,326,365	1,232,556	90,551	3,258
Derivative financial liabilities/ (assets)						
Forward exchange contracts (gross settled)						
– Outflow	3,312	–	668,213	668,213	–	–
– Inflow	–	–	(664,901)	(664,901)	–	–
Commodity futures	5,118	–	5,118	5,118	–	–
	1,327,306		1,334,795	1,240,986	90,551	3,258

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

Notes to the Financial Statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

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"), Great Britain Pound ("GBP") and Euro ("EUR").

Risk management objectives, policies and processes for managing the risk

The Group hedges a portion of its foreign currency denominated trade receivables and trade payables. Following the guidelines set out by the holding company, all foreign exchange contracts are for the purpose of hedging to protect the Group from foreign currency fluctuations and the Group is not allowed to trade other than for the purpose of hedging.

The primary purpose of the Group's foreign currency hedging activities is to protect against the volatility associated with foreign currency sales and purchases of manufactured inventories, purchases of materials and other assets and liabilities created in the normal course of business. The Group primarily utilises forward foreign exchange contracts with maturities of less than twelve months to hedge firm commitments. Under this programme, increases or decreases in the Group's firm commitments are partially offset by gains and losses on the hedging instruments.

Exposure to foreign currency risk

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

	<---------------- 2015	----------------	--------------->	<---------------- 2014	----------------	--------------->
	Denominated in			Denominated in		
Group	**USD RM'000**	**GBP RM'000**	**EUR RM'000**	**USD RM'000**	**GBP RM'000**	**EUR RM'000**
Trade receivables	**6,882**	**–**	**–**	3,999	–	–
Trade payables	**(184,864)**	**(5,902)**	**(9,234)**	(92,840)	(42,855)	(17,948)
Intra-group receivables	**120,453**	**–**	**–**	141,371	809	–
Intra-group payables	**(55,401)**	**(382)**	**(730)**	(62,245)	(506)	(2,473)
Commodity futures	**(4,383)**	**(1,883)**	**–**	(6,962)	774	–
Exposure in the statement of financial position	**(117,313)**	**(8,167)**	**(9,964)**	(16,677)	(41,778)	(20,421)
Net contracted foreign exchange contracts	**(589,689)**	**(10,526)**	**(9,666)**	(89,261)	(1,117)	(3,154)
Net exposure	**(707,002)**	**(18,693)**	**(19,630)**	(105,938)	(42,895)	(23,575)

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Market risk (continued)

22.6.1 Currency risk (continued)

Currency risk sensitivity analysis

A 10% (2014: 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	
	2015 RM'000	**2014 RM'000**
USD	**70,700**	10,594
GBP	**1,869**	4,290
EUR	**1,963**	2,358

A 10% (2014: 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. Short term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

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

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

Notes to the Financial Statements

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	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Fixed rate instrument				
Financial liabilities	**(16,855)**	**(8,696)**	–	–
Floating rate instruments				
Financial assets	**24,582**	**26,510**	79,158	78,310
Financial liabilities	**(435,912)**	**(245,484)**	–	–
	(411,330)	**(218,974)**	79,158	78,310

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 of the Group and the Company by RM4,113,000 (2014: RM2,190,000) and RM792,000 (2014: RM783,000) respectively 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 in relation to commodity markets for the supplies of milk skimmed powder ("MSK"), coffee, cocoa, palm oil, sugar and energy for the manufacture of the Group's products.

Risk management objectives, policies and processes for managing the risk

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

MSK related contracts are transacted by the Global Dairy Procurement. Palm oil contracts are transacted by regional Commodity Purchasing Competence Center ("CPCC") based in Nestlé Singapore, whilst coffee, cocoa, sugar and energy 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 forward exchange contracts and commodity futures have the nominal value of RM1,304,675,000 (2014: RM667,331,000) and RM95,507,000 (2014: RM128,349,000) respectively. The forward exchange contracts and commodity futures are entered into within a year and settled according to the individual contracts settlement date.

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

Group	Carrying amount RM'000	Expected cash flows RM'000	Under 1 year RM'000
2015			
Forward exchange contracts	**101,794**	**101,794**	**101,794**
Commodity futures	**(4,628)**	**(4,628)**	**(4,628)**
2014			
Forward exchange contracts	(3,312)	(3,312)	(3,312)
Commodity futures	(5,118)	(5,118)	(5,118)

During the financial year, a gain of RM83,659,000 (2014: RM8,773,000) was recognised in the other comprehensive income and RM7,351,000 (2014: RM9,518,000) was reclassified from equity to profit or loss. Ineffectiveness loss amounting to RM5,202,000 (2014: RM8,738,000) was recognised in profit or loss during the financial year in respect of the hedge.

22.8 Fair value information

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

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

Notes to the Financial Statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.8 Fair value information (continued)

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

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value					
Group	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
2015										
Financial assets										
Commodity futures	5,566	–	–	5,566	–	–	–	–	5,566	5,566
Forward exchange contracts	–	107,370	–	107,370	–	–	–	–	107,370	107,370
Loans to employees	–	–	–	–	–	–	37,846	37,846	37,846	37,846
	5,566	107,370	–	112,936	–	–	37,846	37,846	150,782	150,782
Financial liabilities										
Commodity futures	(10,194)	–	–	(10,194)	–	–	–	–	(10,194)	(10,194)
Forward exchange contracts	–	(5,576)	–	(5,576)	–	–	–	–	(5,576)	(5,576)
Loan from a related company	–	–	–	–	–	–	(84,264)	(84,264)	(84,264)	(84,264)
Finance lease liabilities	–	–	–	–	–	–	(15,600)	(15,600)	(15,600)	(16,855)
	(10,194)	(5,576)	–	(15,770)	–	–	(99,864)	(99,864)	(115,634)	(116,889)
2014										
Financial assets										
Commodity futures	1,844	–	–	1,844	–	–	–	–	1,844	1,844
Forward exchange contracts	–	15,470	–	15,470	–	–	–	–	15,470	15,470
Loans to employees	–	–	–	–	–	–	35,144	35,144	35,144	35,144
	1,844	15,470	–	17,314	–	–	35,144	35,144	52,458	52,458
Financial liabilities										
Commodity futures	(6,962)	–	–	(6,962)	–	–	–	–	(6,962)	(6,962)
Forward exchange contracts	–	(18,782)	–	(18,782)	–	–	–	–	(18,782)	(18,782)
Loan from a related company	–	–	–	–	–	–	(84,264)	(84,264)	(84,264)	(84,264)
Finance lease liabilities	–	–	–	–	–	–	(8,225)	(8,225)	(8,225)	(8,696)
	(6,962)	(18,782)	–	(25,744)	–	–	(92,489)	(92,489)	(118,233)	(118,704)

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.8 Fair value information (continued)

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 2 fair value

Derivatives

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and Level 2 fair values during the financial year (2014: no transfer in either directions).

Level 3 fair value

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

22.9 Master netting or similar agreements

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

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

Notes to the Financial Statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.9 Master netting or similar agreements (continued)

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

Group	Note	Carrying amounts of financial instruments in the statements of financial position RM'000	Related financial instruments that are not offset RM'000	Net amount RM'000
2015				
Derivative financial assets				
Forward exchange contracts designated as hedging instruments	8	**107,370**	**(5,085)**	**102,285**
Derivative financial liabilities				
Forward exchange contracts designated as hedging instruments	14	**(5,576)**	**5,085**	**(491)**
2014				
Derivative financial assets				
Forward exchange contracts designated as hedging instruments	8	15,470	(9,414)	6,056
Derivative financial liabilities				
Forward exchange contracts designated as hedging instruments	14	(18,782)	9,414	(9,368)

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 investors', creditors' and markets' confidence and to sustain future development of the business.

There was no change to the Group's approach to capital management during the financial year.

24. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2015 RM'000	**2014 RM'000**
Less than one year	**24,050**	22,822
Between one and five years	**40,407**	21,851
	64,457	44,673

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	
	2015 RM'000	**2014 RM'000**
Capital expenditure commitments		
Plant and equipment		
Authorised but not contracted for	**133,974**	139,267
Contracted but not provided for within one year	**18,582**	64,644
	152,556	203,911

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.

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

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

Notes to the Financial Statements

26. RELATED PARTIES (CONTINUED)

Significant related party transactions

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

		2015		2014	
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	**(780,276)**	**124,044**	(797,859)	159,144
Purchases of goods and services	a	**544,951**	**(63,692)**	464,411	(106,805)
Royalties		**235,842**	**(18,482)**	232,090	(17,272)
IT shared services		**32,692**	**–**	33,171	–
Finance costs		**6,979**	**(638)**	5,702	(622)
Company					
Subsidiary					
Finance income	b	**(3,107)**	**–**	(3,043)	269

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 3.45% to 4.08% (2014: 3.80% to 4.05%) per annum and are repayable on demand.

27. 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 or losses, pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follows:

	Group		Company	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Total retained earnings of the Company and its subsidiaries:				
– Realised	**501,065**	580,125	**305,667**	411,134
– Unrealised	**(194,921)**	(132,568)	**–**	–
	306,144	447,557	**305,667**	411,134
Total retained earnings of an associate:				
– Realised	**1,114**	631	**–**	–
Add: Consolidation adjustments	**57,862**	61,781	**–**	–
Total retained earnings	**365,120**	509,969	**305,667**	411,134

The determination of realised and unrealised profits or losses 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 45 to 100 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company at 31 December 2015 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 27 on page 101 to the financial statements has been compiled in accordance with 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 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:

Alois Hofbauer

Martin Peter Krügel

Petaling Jaya, Malaysia
23 February 2016

Statutory Declaration

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

I, **Martin Peter Krügel**, 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 45 to 101 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 23 February 2016.

Martin Peter Krügel

Before me:

Guna Papoo
Commissioner of Oaths (No. B338)

Petaling Jaya, Malaysia
23 February 2016

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 2015 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 45 to 100.

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 2015 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.

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 27 on page 101 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

Chong Dee Shiang
Approval Number: 2782/09/16(J)
Chartered Accountant

Petaling Jaya, Malaysia
23 February 2016

Shareholdings Statistics

as at 29 February 2016

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	:	5,577
Voting rights	:	One vote per ordinary share

SUBSTANTIAL SHAREHOLDERS

Name	Number of shares held	%
Nestlé S.A.	170,276,563	72.613
Citigroup Nominees (Tempatan) Sdn Bhd – Employees Provident Fund Board	21,223,800	9.050
Amanahraya Trustees Berhad – Amanah Saham Bumiputera	8,408,100	3.585

30 LARGEST SHAREHOLDERS

	Name	Number of shares held	%
1	Nestlé S.A.	170,276,563	72.613
2	Citigroup Nominees (Tempatan) Sdn Bhd – Employees Provident Fund Board	21,223,800	9.050
3	Amanahraya Trustees Berhad – Amanah Saham Bumiputera	8,408,100	3.585
4	Kumpulan Wang Persaraan (Diperbadankan)	4,785,500	2.040
5	Malaysia Nominees (Tempatan) Sendirian Berhad – Great Eastern Life Assurance (Malaysia) Berhad (Par 1)	3,505,810	1.495
6	Pertubuhan Keselamatan Sosial	1,359,200	0.579
7	Amanahraya Trustees Berhad – Amanah Saham Malaysia	1,300,000	0.554
8	Amanahraya Trustees Berhad – Public Islamic Dividend Fund	1,103,300	0.470
9	Amanahraya Trustees Berhad – Amanah Saham Wawasan 2020	797,100	0.339
10	Amanahraya Trustees Berhad – Public Islamic Equity Fund	687,700	0.293
11	Amanahraya Trustees Berhad – Public Islamic Select Enterprises Fund	645,600	0.275
12	Kwang Teow Sang Sdn Bhd	560,700	0.239
13	Cartaban Nominees (Asing) Sdn Bhd – Rbc Investor Services Bank For Vontobel Fund – Far East Equity	519,000	0.221
14	Cartaban Nominees (Tempatan) Sdn Bhd – Exempt An For Eastspring Investments Berhad	434,600	0.185
15	Citigroup Nominees (Tempatan) Sdn Bhd – Employees Provident Fund Board (Aberdeen)	431,000	0.183
16	Malaysia Nominees (Tempatan) Sendirian Berhad – Great Eastern Life Assurance (Malaysia) Berhad (Par 2)	411,400	0.175
17	Citigroup Nominees (Tempatan) Sdn Bhd – Kumpulan Wang Persaraan (Diperbadankan) (Aberdeen)	370,000	0.157
18	Batu Pahat Seng Huat Sdn Berhad	363,985	0.155
19	Woo Khai Yoon	317,000	0.135

30 LARGEST SHAREHOLDERS (CONTINUED)

	Name	Number of shares held	%
20	Kuok Foundation Berhad	274,200	0.116
21	Seah Gak San	252,000	0.107
22	Jarrnazz Sdn. Bhd.	248,000	0.105
23	Yeap Chor Beng & Sons Sdn Bhd	199,500	0.085
24	Mohd Nasser Bin Jaafar	194,550	0.082
25	Maybank Nominees (Tempatan) Sdn Bhd – Etiqa Insurance Berhad (Life Par Fund)	190,500	0.081
26	Amanahraya Trustees Berhad – Public Dividend Select Fund	182,800	0.077
27	Tan Seng Kee Sdn Bhd	169,761	0.072
28	Abdul Rashid Bin Jaafar	157,750	0.067
29	Chinchoo Investment Sdn. Berhad	132,000	0.056
30	Norlina Binti Ahmad	130,000	0.055

Size of Holdings	No. of Shareholders/ Depositors	% of Shareholders/ Depositors	No. of Shares Held	% of Issued Capital
1 – 99	624	11.189	4,100	0.002
100 – 1,000	3,582	64.228	1,874,419	0.799
1,001 – 10,000	1,066	19.114	3,634,348	1.550
10,001 – 100,000	264	4.734	8,119,995	3.463
100,001 – less than 5% of issued shares	39	0.699	29,366,775	12.523
5% and above of issued shares	2	0.036	191,500,363	81.663
Total	5,577	100.000	234,500,000	100.000

DIRECTORS' SHAREHOLDINGS

	Direct Interests (no. of shares)	% of Issued Capital	Deemed Interests (no. of shares)	% of Issued Capital
The Company				
Dato' Frits van Dijk	8,000	0.00341	–	–
Nestle S.A., the holding company				
Dato' Frits van Dijk	240,000	0.00753	–	–
Mr Alois Hofbauer	6,380	0.00020	–	–
Mr Martin Peter Krügel	1,850	0.00006	–	–

List of Properties Held

At 31 December 2015

	Location	Tenure	Age*	Expiry Date	Size (m²)	Description	Net Book Value RM'000
1.	No. 25 Jalan Tandang 46050 Petaling Jaya Selangor	Leasehold	55	Q.T. (R) 2619 25.09.2066 Q.T. (R) 5281 07.10.2069	50,342	Factory	15,725
2.	Lot No. 3, 5, 75 & 76 Jalan Playar 15/1 40700 Shah Alam Selangor	Leasehold	6-45**	10.06.2070	113,396	Factory	43,440
3.	Lot No. 6 Pesiaran Raja Muda 40700 Shah Alam Selangor	Leasehold	46	29.01.2070	36,835	Factory & warehouse	11,013
4.	Lot Nos. 687 – 696, 3863 – 3866, 4671, 4673, 5435 & 5807 Mukim Chembong Daerah Rembau Negeri Sembilan	Leasehold	19-24	15.11.2048 27.06.2049 13.08.2055 20.11.2095	138,899	Factory	2,897
5.	Lot Nos. 3857 – 3862 & 4672 Jalan Perusahaan 4 Kawasan Perindustrian Chembong, Chembong Rembau, Negeri Sembilan	Leasehold	19-24	27.06.2049 20.11.2095	33,870	Factory	1,367
6.	Lot No. 844, Block 7 Muara Tebas Land District Sejingkat Industrial Estate Kuching, Sarawak	Leasehold	24	19.10.2053	25,460	Factory	319
7.	Lot 915, Block 7 Muara Tebas Land District Demak Laut Industrial Park Kuching, Sarawak	Leasehold	21	12.10.2054	12,740	Factory	611
8.	Plot 46, Bemban Industrial Park Batu Gajah, Perak	Leasehold	18	07.11.2058	157,500	Vacant land	5,829
9.	Lot 3846, Pekan Chembong Daerah Rembau Negeri Sembilan	Leasehold	2	26.06.2049	4,249	Vacant land	305

* Approximation of age of property in years.

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

Nestlé
CONTACT DETAILS

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Visit our Facebook page at	:	http://www.facebook.com/NestleMalaysia
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