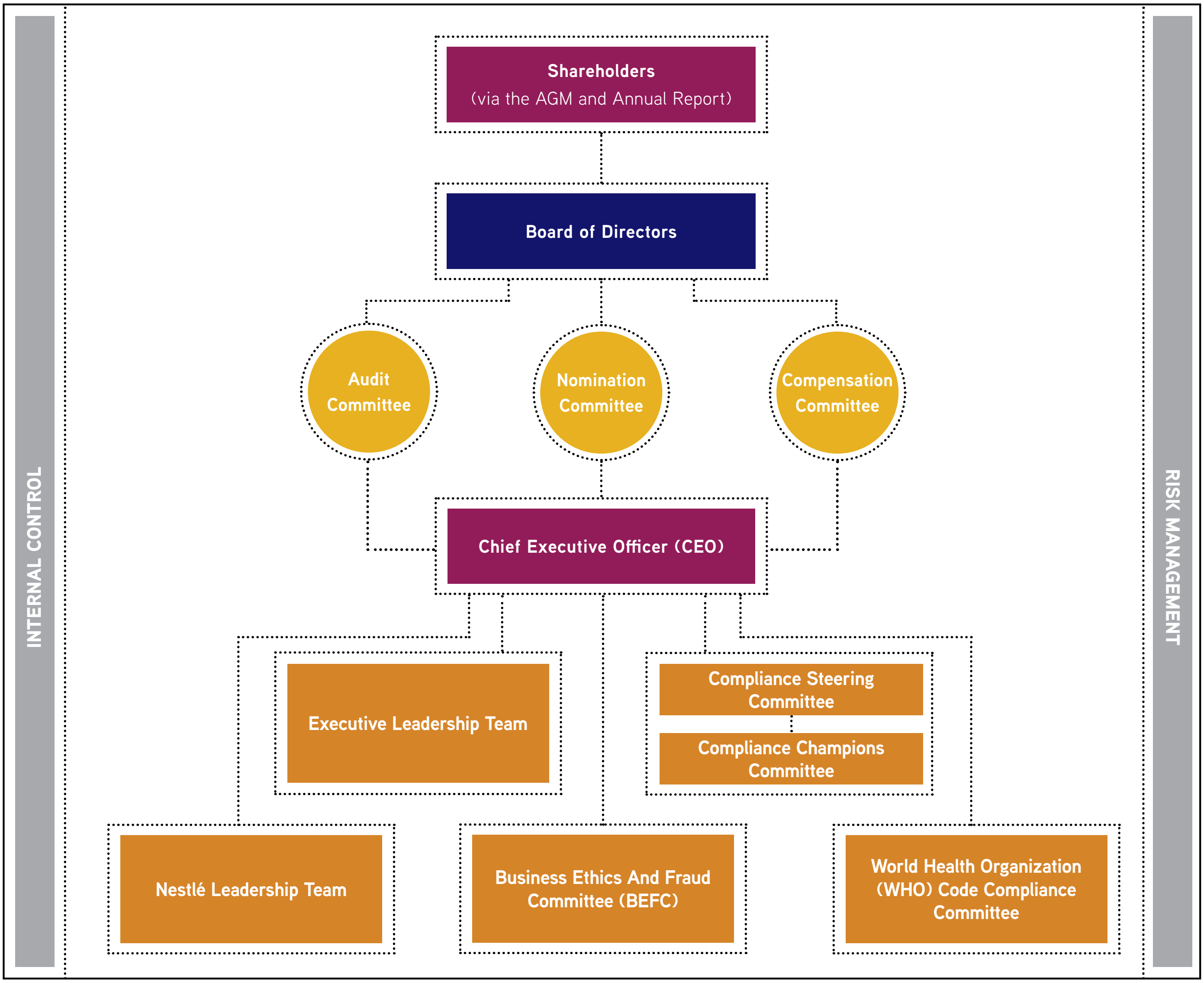
Nestlé
Good Food, Good Life

Corporate Governance & Financial Report 2016

CONTENTS

CORPORATE GOVERNANCE STATEMENT

Good corporate governance enhances the credibility and reputation of Nestlé (Malaysia) Berhad (110925-W) ("Company"), as well as promotes and safeguards the interests of Shareholders and other Stakeholders. Maintaining a good, solid and sensible framework of corporate governance has been and remains the top priority of the Company and its subsidiaries ("Group"). We use a Corporate Governance Framework to identify all the key participants in good governance, the ways in which they relate to each other and the contribution each makes to the application of effective governance policies and processes.



OUR CORPORATE GOVERNANCE FRAMEWORK RESTS ON TWO (2) IMPORTANT COMMITMENTS

1. **We disclose our corporate governance principles and practices openly and fully.**
2. **We recognise the need to adapt and improve our principles and practices in light of our experience, regulatory requirements, domestic developments and investor expectations.**

Corporate Governance Statement

OUR 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.
- The business principles and values entrenched in the Nestlé Corporate Business Principles, Nestlé Code of Business Conduct, Nestlé Supplier Code and Nestlé Malaysia Anti-Corruption, Gifts & Entertainment Guidelines.
- All relevant laws and regulation.

Through this Corporate Governance Statement and our Nestlé corporate website, we keep Shareholders and other Stakeholders abreast of all our policies and practices so that they can judge whether these are of a standard which meets their expectations and properly serves their interests.

THE BOARD CHARTER

The Board of Directors ("Board") has formally adopted a Board Charter, which provides guidance to the Board in the fulfilment of its roles, duties and responsibilities. The Board Charter outlines the roles and responsibilities of the Board, the balance and composition of the Board, the Board's authorities, schedule of matters reserved for the Board, the establishment of the Board Committees, the Board's assessment and review of its performance, compliance with ethical standards, the Board's access to information and advice; as well as conflict of interest declarations.

The Board Charter is made available on the Company's corporate website at www.nestle.com.my. The Board Charter was last reviewed by the Board on 28th February 2017.

THE BOARD AND ITS RESPONSIBILITIES

The Board is charged with promoting the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith in the best interests of the Company.

The Directors are aware of their collective and individual responsibilities to all Shareholders for the manner in which the affairs of the Company are managed, controlled and operated.

THE RESPONSIBILITIES ASSUMED BY THE BOARD ARE TO

- Review and adopt the strategic plan for the Group including addressing the Group's business strategies on promoting sustainability and setting of goals.
- Approve Management proposal on monitoring the implementation of strategic plan by Management Team.
- 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.
- Be kept updated and advised on information and conflict of interest issues.

Corporate Governance Statement

THE RESPONSIBILITIES ASSUMED BY THE BOARD ARE TO

- Provide leadership in ensuring that the Company's business objectives are met within the framework of internal controls as described herein.
- Review the adequacy and integrity of the Group's internal control and management systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.
- Ensure the balanced composition of the Board.
- 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, ethnicity and age diversity).
- 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 Executive Leadership Team and Nestlé Leadership Team of the Company.
- Establish Board Committees and be accountable for all decisions made by the Board Committees.
- Deliberate on all proposals presented and recommended, including those proposed by its Board Committees.
- Assess and review the Board's performance, core competencies and the effectiveness of the Board, the Board Committees and the individual Directors.
- Oversee the development and implementation of an investor relations programme and Stakeholder communications policy.
- Comply with ethical standards.
- Ensure the independence of the Board and that the Board is not in any position of conflict.
- Review the updates from Creating Shared Value ("CSV") Council on the Company's corporate social responsibilities and sustainability initiatives.
- Deliberate schedule of key matters reserved for the Board.

FORMAL SCHEDULE OF MATTERS RESERVED FOR THE BOARD

A formal schedule of matters reserved for the Board to ensure the direction and control of the Company are provided for in the Board Charter, and includes amongst others:

- Review, approve and adopt the Company's strategic plans and annual budgets.
- Acquisition and disposal or closure of business(es).
- Declaration of dividends and approval of financial statements, including accounting policies of the Group.
- Establishment of new substantial business(es).
- Capital investment and disposal of tangible assets from existing business(es) to third party.
- Increase or reduction of subsidiary's authorised or issued capital.
- Finance of the Group's activities.
- Any corporate restructuring not covered by the above-mentioned paragraphs.
- The change of name of any company within the Group and establishment of any new company.

Corporate Governance Statement

THE BOARD IN ACTION

To increase their understanding of the business, the Directors regularly meet with the Management Team and attend formal briefing sessions conducted by the Management Team as well as such site visits organised by the Management Team.

The Directors also regularly receive a compilation of corporate news relating to the Company and internal updates from time to time to give the Directors context to current issues. In-depth and background materials relating to the business are also readily made available for sharing as and when the Directors request for such materials to be furnished.

In addition to attending the scheduled Board and Committee meetings as well as the various Board trainings, the Board in 2016 attended a three (3) day off-site meeting which allowed the Board to meet, network, and engage with the management of Nestlé S.A. for further insights into the operations of Zone Asia, Oceania and Africa of Nestlé S.A. The meeting facilitated in-depth discussions on business strategies and the roadmap planned ahead for the operations of the Nestlé business on a global scale. In addition to the meetings, the Board visited several operational and knowledge facilities set up by Nestlé S.A.

MAIN ACTIVITIES OF THE BOARD FOR THE YEAR

- Review and approve the cumulative full year results for the financial year ended 31st December 2015 and cumulative 1st half year results for the financial year ended 31st December 2016.
- Review and approve the Quarterly Results for the financial year ended 31st December 2016.
- Review the report on Company's quarterly performance and outlook for the year.
- Approve the Director's Report and Audited Accounts for the financial year ended 31st December 2015.
- Approve dividend payments.
- Review and approve the financial results announcements.
- Review of the Group's compliance with the Listing Requirements, Malaysian Accounting Standards Board and other relevant legal and regulatory requirements with regards to the quarterly and year-end financial statements.
- Review and approve the Company's strategy and plans.
- Review and approve the general budget.
- Review and approve the capital expenditure budget.
- Receive updates on risk management.
- Receive updates on the Recurrent Related Party Transactions by the Company.
- Report on major litigation, claims and/or issues with substantial financial impact (if any).
- Review and approve the Terms of Reference of the Board of Directors, Audit Committee, Nomination Committee and Compensation Committee.
- Note the Minutes of Meetings and approve the reports and recommendations from the Audit Committee, Nomination Committee, Compensation Committee meetings and Joint Nomination and Compensation Committee meetings.
- Take note of Nestlé Market Audit's report, recommendations and Management responses.
- Review and approve succession plans, policy on Board composition and board diversity (including gender, ethnicity and age diversity) and review and approve the management development and succession plans for the Executive Leadership Committee.
- Review and validate the results of the 2016 Board Effectiveness Evaluation.
- Review the size, structure, function, balance and composition of the Board and the Board Committees, including the required mix of skills and experiences, core competencies of the Directors for the effective and efficient function of the Board and the Board Committees.

Corporate Governance Statement

MAIN ACTIVITIES OF THE BOARD FOR THE YEAR

- Review the terms of office and the contribution, performance and the effectiveness of the Board and individual Directors, the Audit Committee, Nomination Committee, Compensation Committee and each member of the Board Committees to ensure that they have carried out their duties in accordance with their terms of reference.
- Review the term of office and assess the retirement of Directors by rotation, the retention of Directors and eligibility for re-election, re-appointment or retention.
- Review and approve the policy on age limit and tenure of Directors.
- Review the trainings for the Board of Directors.
- Review and discuss the 2016 proposed fees for the Non-Executive Directors.
- Note the remuneration of the Executive Directors.
- Review and approve the Remuneration Direction for 2017.
- Receive human resource updates.
- Receive updates from the CSV Council.
- Receive updates on the Nestlé Malaysia Group Retirement Scheme (pension fund).
- Receive updates on Collective Agreements.
- Receive updates on Quarterly Analyst briefings.
- Receive updates on the WHO Code Compliance.
- Receive updates on the quarterly Nestlé S.A. results.
- Reaffirm and ratify the Circular Resolutions passed by the Board.
- Note the Company's announcements which had been released to Bursa.
- Note amendments of Bursa Malaysia Berhad Listing Requirements.
- Review the submission of the semi-annual returns.
- Recommend the re-appointment of the Group's external auditors for the financial year ending 31st December 2016 and for the Directors to fix their remuneration.
- Re-appointment of external auditors.
- Review and approve the draft Circular to Shareholders in relation to the Proposed Renewal of Shareholders' Mandates for Recurrent Related Party Transaction of revenue or trading nature.
- Review and approve the Statement on Internal Control and Risk Management for the Annual Report 2015.
- Review and approve the Annual Report 2015.
- Preparation for the 2016 Annual General Meeting.
- Approve the change of share registrar.
- Review the proposed Malaysian Code on Corporate Governance 2016 draft.
- Review the effectiveness of the Board meeting.
- Approve the Board Agenda for 2017.

Corporate Governance Statement

THE BOARD'S PROFESSIONALISM

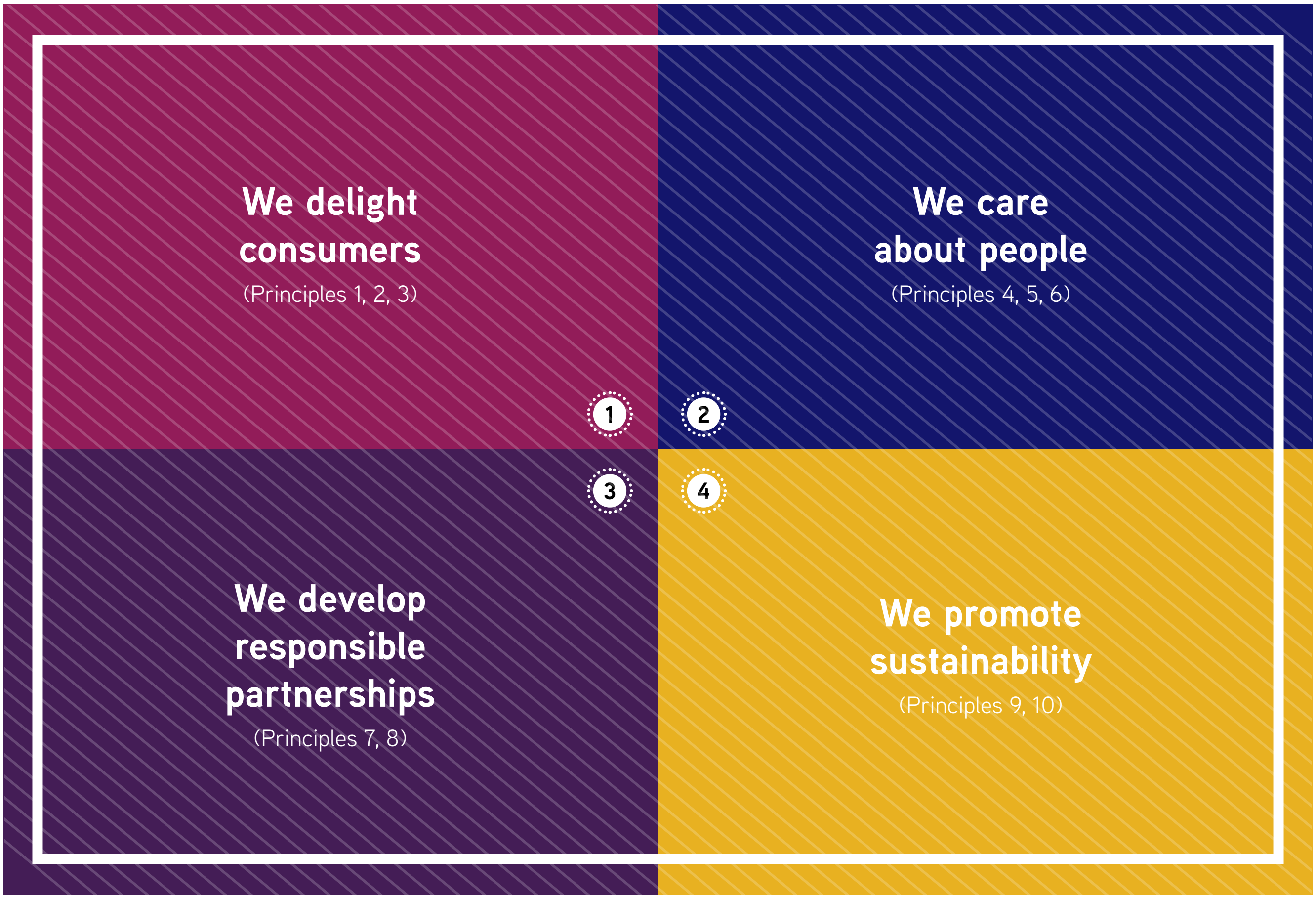
CODE OF CONDUCT

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

I. Nestlé Corporate Business Principles

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

The Nestlé Corporate Business Principles also focuses 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; political, economic and cultural aspects. These principles can be summarised as follows:



Corporate Governance Statement

NESTLÉ PRINCIPLES AND POLICIES MAP

CONSUMER

1

Nutrition, Health and Wellness

Nestlé Principles on Nutrition, Health and Wellness

2

Quality assurance and product safety

Nestlé Quality Policy
Nestlé Nutrition Quality Policy

3

Consumer communication

Nestlé Consumer Communication Principles

Nestlé Policy on Nutrition and Health Claims

Nestlé Nutritional Profiling System

Nestlé Nutritional Compass

The World Health Organization ("WHO") International Code of Marketing of Breast-milk Substitutes

HUMAN RIGHTS AND LABOR PRACTICES

4

Human rights in our business activities

United Nations Global Compact

International Labour Organisation ("ILO") Conventions 87, 138, 182

United Nations Convention of the Rights of the Child: Article 32

The Organisation for Economicic Co-operation and Development ("OECD") Guidelines for Multinational Enterprises 2000

ILO Declaration on Multinational Enterprises 2006

OUR PEOPLE

5

Leadership and personal responsibility

Nestlé Management and Leadership Principles

Nestlé Code of Business Conduct

Nestlé Human Resources Policy

6

Safety and health at work

Nestlé Policy on Safety and Health at Work

SUPPLIERS AND CUSTOMERS

7

Supplier and customer relations

Nestlé Supplier Code

8

Agriculture and rural development

Nestlé Policy on Environmental Sustainability

THE ENVIRONMENT

9

Environmental sustainability

Nestlé Policy on Environmental Sustainability

10

Water

Nestlé Policy on Environmental Sustainability

Nestlé Commitments on Water

Corporate Governance Statement

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:-

(a) Avoidance of any conduct that could damage or create risk to the Group or its reputation;
(b) Legal compliance and honesty, to place the Group's interests ahead of personal or other interests; and
(c) Guidance on how the Group's employees should behave.

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 with the Nestlé Corporate Business Principles as well as the Nestlé Code of Business Conduct, in which "Leadership and Personal Responsibility" and non-negotiable minimum standards of employee behaviour are clearly depicted as key operational principles. The Group emphasises the need to develop Nestlé managers who add value and are able to lead and inspire individuals, rather than 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:-

(a) Lead to Win;
(b) Manage for Results;
(c) Grow Talent and Teams; and
(d) Compete and Connect Externally.

The Group believes that it is the responsibility of the employees to commit to living up to the Nestlé Management and Leadership Principles in order to progress within the organisation.

IV. Nestlé Malaysia Anti-Corruption, Gifts & Entertainment Guidelines

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

Anti-Corruption messages will continue to be actively disseminated within the Group in 2017 with plans already in place to increase the total coverage area of all integrity related initiatives.

V. Nestlé Malaysia Charter: Infant Formula Policy

WHO acknowledges that there is a legitimate market for breast-milk substitutes when breast-feeding is not possible but maintains that the marketing of the product deserves special treatment and must be bound by restrictions, so as not to discourage breastfeeding. The WHO International Code of Marketing of Breast Milk Substitutes, passed in 1981, provides a framework for the marketing of these products.

The Group strongly supports the WHO Code that aims to protect, promote and support breastfeeding. The Group in upholding its commitment, had established a comprehensive list of instructions, demanding of its employees strict adherence to the WHO Code and the Malaysian Code of Ethics in relation to infant formula marketing practices.

For these instructions to be easily understood by all personnel of the Group as well as agents and distributors involved in the marketing and sale of infant formula products, a simplified list of operational guidelines was formulated. The Nestlé Charter is a distillation of the detailed instructions that have been in existence since 1982, which every employee of the Group must comprehend and comply with.

The Group endeavours to constantly improve its products in line with the latest scientific and technological advances. However, in conformity with the WHO Code and the Malaysian Code of Ethics, the Nestlé Charter shall continue to ensure that our efforts will respect a mother's freedom of choice and will not in any way undermine the superiority of breast milk.

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

Corporate Governance Statement

DIRECTOR'S COMMITMENT

In compliance with the Listing Requirements, all of the Directors do not hold more than five (5) directorships of any 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 the Directors' planning, an annual meeting calendar is prepared and given to the 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 2016, six (6) Circular Resolutions ranging from administrative to operational issues were approved by the Directors, during Board Meetings.

The Board has outlined the proper procedure which the Directors need to comply with before accepting any new external Board appointment. The Chairman and the CEO will decide on the acceptance of the request. If there is a potential conflict in the pending appointment, it will be tabled at the Nomination Committee meeting that notwithstanding Paragraph 15.06 of the Listing Requirements 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.

PROVIDING SOUND LEADERSHIP

A BALANCED BOARD

As at the date of this Report, the Board comprises of eight (8) Directors, two (2) of them are women. Six (6) Directors are non-executive and independent of management, thereby promoting critical review and control of the management process. The non-executive members of the Board bring a wide range of business and financial experience to the Board, which contributes to the effective direction of the Group. Details of all Directors and their biographies are provided in pages 36 to 47 of the Corporate Report 2016.

A DIVERSE AND SKILLED BOARD

The Board, through its Nomination Committee, has developed a Board Improvement Programme, following a Board Effectiveness Evaluation. The Board Improvement Programme emphasises on developing and implementing action plans in addressing gaps that have been identified from the Board Effectiveness Evaluation. Further, the Board complemented this programme with the adoption of the Board Competency Matrix, a tool which assesses the composition of the Board and identifies gaps in the required skills, experiences and attributes. The Board believes that Board diversity enhances decision-making capability and a diverse board is more effective in dealing with organisational changes and less likely to suffer from group thinking. The Board recognises that board diversity is an essential element contributing to the sustainable development of the Company.

THE OBJECTIVE OF THE BOARD IMPROVEMENT PROGRAMME IS TO HAVE A STRONG BOARD WHICH

A. Is characterised by a broad range of views arising from different experiences when discussing business.

B. Has competencies required for the Board in making informed and critical decisions.

C. Has sustainable development as its core value, and thus promotes the interests of the Company's Stakeholders, particularly their long-term interests, fairly and effectively.

The Board considers the concept of diversity to incorporate a number of different aspects, such as professional experiences, business perspectives, skills, knowledge, gender, age, cultural and educational background, ethnicity and length of service.

Corporate Governance Statement

BOARD SKILLS AND DIVERSITY

EXPERIENCE

1. **Industry**
2. **Board of public listed company**
3. **Government liaison**
4. **Senior leadership (CEO/Chairman)**
5. **Global organisation**
6. **Entrepreneurship**

SKILLS

1 Strategy and entrepreneurship

- Experience in developing corporate strategies for growth.
- Operates or has relevant industry experience in operating businesses.

2 Legal and regulatory requirements

- Knowledge on legal, regulatory and business requirements in which the Company operates.
- Ability to understand, interpret and effectively apply legislative and regulatory changes (including pertinent laws of Malaysia, Listing Requirements and other legislations).

3 Corporate governance, risk management and internal controls

- Working knowledge on duties and responsibilities of the Board, Board Committees and Directors.
- Hands-on experience in the field of governance, risk and controls.

4 Audit, accounting, financial reporting and taxation

- Understands financial statements, including ability to read, analyse and interpret financial statements.
- Working knowledge on auditing (external and/or internal auditing).
- Familiar with Financial Reporting Standards (IFRS/MFRS/FRS) and their implications to the Company.
- Working knowledge of the Malaysian tax regime and key provisions affecting the Company.

5 Human capital

- Understands and is familiar with human resource legislation and issues.
- Experience in the field of talent retention, capacity building, performance evaluation and skill set development (for directors, senior management and employees).

6 Sales and marketing

- Experience in sales function, including promoting and marketing products/services.
- Understands threats from competitors and how to address them.

7 Production and quality assurance

- Familiar with products and services of the Company.
- Understands high quality standards of products/services.

8 Digital economy, e-commerce and social media

- Understands the digital/internet economy.
- Working knowledge in e-commerce, its challenges and growing digital opportunities.
- Familiar with social media, its opportunities and threats.

9 Liaison with government, non-governmental bodies and other Stakeholders

- Good network with the relevant ministries, statutory bodies, Non-Governmental Organisations and other Stakeholders.
- Understands their roles and importance to the Company.

GENDER DIVERSITY

Male

6

Female

2

Corporate Governance Statement

BOARD BALANCE AND COMPOSITION

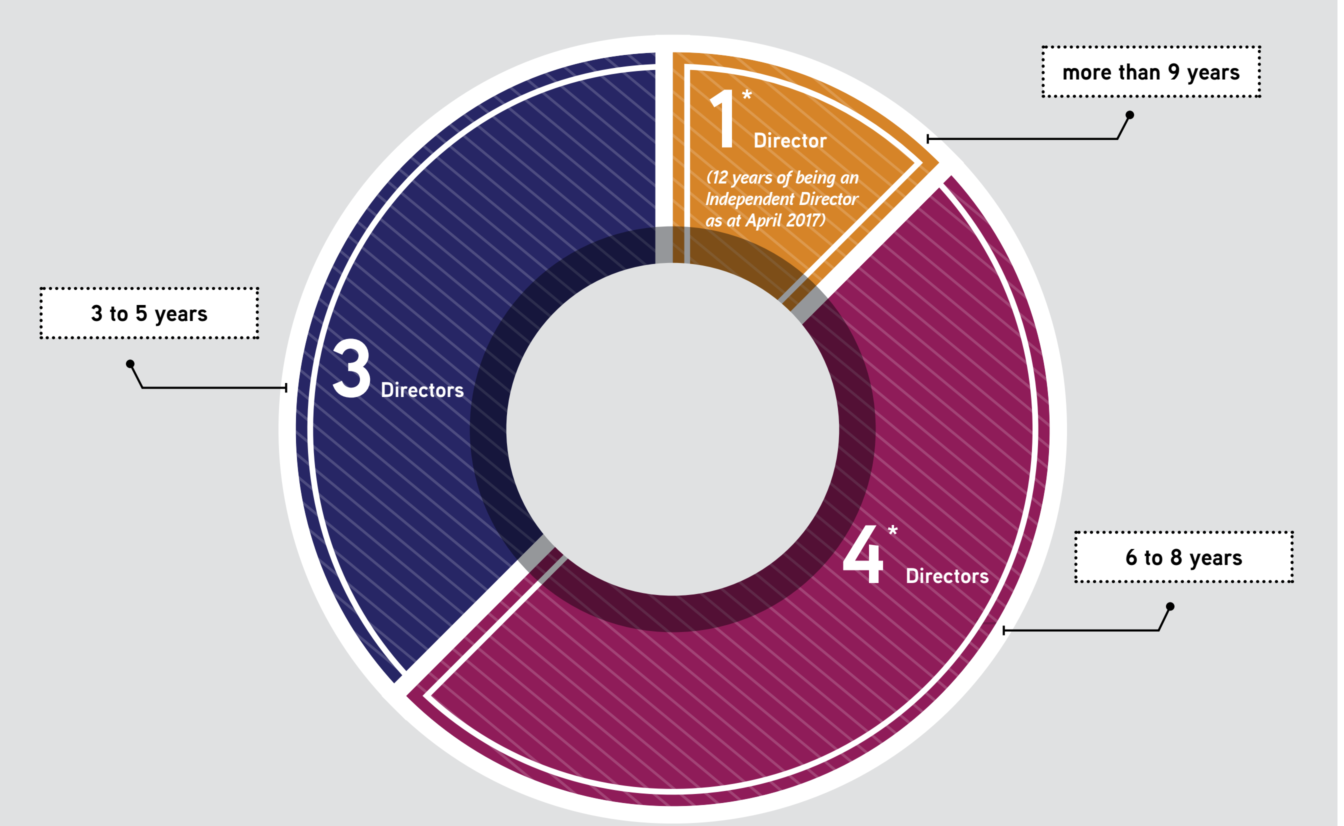
6 Independent Non-Executive Directors

2 Non-Independent Executive Directors

KEY FEATURES OF OUR BOARD

- The Board comprises a majority of Independent Directors.
- The Chairman is an Independent Non-Executive Director.
- The role of the Chairman and the CEO are distinct.

TENURE



* As Independent Non-Executive Directors

Corporate Governance Statement

NOMINATION AND APPOINTMENT OF DIRECTORS

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

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

THE COMPANY IS GUIDED BY THE FOLLOWING PROCESS AND PROCEDURES FOR NOMINATION OF NEW CANDIDATES

1. Identification of Skills/Gaps
2. Selection of Candidates
3. Assessment of Candidates
4. Initial Interaction with Candidates
5. Review by Nomination Committee
6. Recommendation for Board's Approval
7. Board Approval

THE NOMINATION COMMITTEE IN MAKING ITS RECOMMENDATION ON CANDIDATES FOR DIRECTORSHIP WILL CONSIDER THE CANDIDATE'S

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

BOARD INDUCTION

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

All Directors have attended and successfully completed the Mandatory Accreditation Programme as required by the Listing Requirements. All Directors are encouraged to attend continuous education programmes, talks, seminars, workshops and conferences to enhance their skills and knowledge and to ensure Directors keep abreast with new developments in the business environment, and enhance their skills and knowledge. On an on-going basis, the Company identifies conferences and seminars which are specific to the industry for the Directors to attend. In addition, the Directors received face to face briefings, training and presentations on matters which are relevant to the Company's operation. Details of the Directors' professional development can be found on pages 18 to 19 of this Corporate Governance & Financial Report.

Corporate Governance Statement

RE-ELECTION, RE-APPOINTMENT AND RETENTION OF DIRECTORS

In compliance with the Articles of Association, comprising part of the constitution of the Company, one third of the Directors shall retire by rotation at each annual general meeting and that a director who is appointed during the year shall retire at the next annual general meeting. The Articles of Association further provide that all Directors shall retire from office at least once in every three (3) years.

In addition, in line with the Nestlé Global Policy, the Board has in 2016 adopted a limit of 72 years of age for the Directors with no limit set for their tenure, provided that they meet the assessment as well as the relevant codes and regulations on independence and retention.

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

(a) Compliance with prescriptive requirements by regulators;
(b) Participation in Board and Board Committee meetings;
(c) Contribution to interaction;
(d) Quality of input;
(e) Understanding of roles and responsibilities;
(f) Assessment of continued independence; and
(g) Providing value to the Board through unique, in-depth knowledge and expertise.

EVALUATING THE BOARD

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

In 2015, the Board Improvement Programme was implemented as a result of a Board Effectiveness Evaluation conducted in 2013. The Board Improvement Programme is a framework in which a number of areas have been identified during the Board Effectiveness Evaluation, which require further improvements and further enhancements on Board effectiveness. Some of the key areas addressed by the Board Improvement Programme were human capital development and succession planning. Another Board Effectiveness Evaluation was carried out by an external party in 2016, to evaluate and assess amongst others, the Board as a whole, the Board Committees, the individual Directors, the independence of the individual Directors and the Board's skills matrix. The results of the 2016 Board Effectiveness Evaluation will be used as a basis for a refined Board Improvement Programme for adoption in 2017. Overall, the results of the Board Effectiveness Evaluation were positive in the majority of responses and feedback.

THE EVALUATION PROCESS AND PROCEDURES FOR RE-ELECTION/RE-APPOINTMENT/RETENTION PRACTICED WITHIN THE COMPANY ARE AS FOLLOWS:

Evaluation by Nomination Committee members on the Directors who are subject to re-election/re-appointment/retention

→ The evaluation results will be submitted to the Nomination Committee for review

→ The Nomination Committee will assess the evaluation results

→ The findings and recommendation of the Nomination Committee together with the evaluation results and recommendation will be submitted to the Board for decision

Corporate Governance Statement

DIVISION OF ROLES BETWEEN THE CHAIRMAN AND CEO

The Board appreciates the distinct roles and responsibilities of the Chairman of the Board and the CEO. This division ensures that there is a clear and proper balance of power and authority. As such, the role of the Chairman and the CEO is separate.

THE CHAIRMAN'S ROLE	THE CEO'S ROLE
The Chairman's main role is to ensure effective conduct of the Board through the execution of the following: • Guide and mediate the Board's actions with respect to organisational priorities and governance concerns. • Undertake the primary responsibility for organising the information necessary for the Board to deal with items on the agenda and for providing this information to Directors on a timely basis with the assistance of the Company Secretary. • Ensure that Board meetings are effective, including ensuring that all relevant issues are on the agenda and that all Directors receive timely and relevant information tailored to their needs and that they are properly briefed on issues arising at Board meetings. • Undertake appropriate public relations activities together with the CEO. • Be the spokesperson for the Company at the Annual General Meeting and in the reporting of performance and profit figures. • Be the major point of contact between the Board and the CEO. • Be kept fully informed of current events by the CEO on all matters which may be of interest to Directors. • Regularly review progress on important initiatives and significant issues facing the Company and/or the Group together with the CEO and other relevant members of the Management Team.	**The specific responsibilities of the CEO are to:** • Develop the strategic direction of the Group and provide directions in the implementation of short and long-terms strategies and plans. • Together with the Management Team, oversee the day-to-day operations and develop the strategic direction of the Group and provide directions in the implementation of short and long-term strategies and plans. Directing and controlling all aspects of the business operations in a cost effective manner. • To manage the business of the Group in a manner consistent with the Nestlé Code of Business Conduct, the Nestlé Corporate Business Principles and all internal policies as well as guidelines. • Execute management of the Group's business, covering, inter-alia, the development of a sustainable strategic plan, an annual operating plan and budget, performance benchmarks to gauge Management's performance, and an analysis of Management reports. • Oversee the human resource of the organisation with respect to key positions in the Group hierarchy and ensuring the general well-being of employees, including the determination of remuneration as well as terms and conditions of employment for Management Team personnel and issues pertaining to discipline of all employees. • Represent the interest of the Group with major customers, governments and their agencies, stakeholders and industries at large, to ensure general goodwill towards the Group and cooperation in planned development. • Assist members of the Board, as required, in discharging their duties. • Assist the Chairman in organising information necessary for the Board to deal with the agenda and for providing such information to Directors on a timely basis. • Assess business opportunities of potential benefit to the Company and the Group. • Provide proposal on major capital expenditure to ensure alignment with corporate strategy.

Corporate Governance Statement

INDEPENDANT NON-EXECUTIVE DIRECTORS

An Independent Non-Executive Director is a director who is independent of management and free from any business or other relationship which could interfere with the exercise of independent judgment or the ability to act in the best interest of the Company.

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

THE RESPONSIBILITIES OF AN INDEPENDENT NON-EXECUTIVE DIRECTOR, AMONGST OTHERS, INCLUDE THE FOLLOWING

A. To enhance the independence and objectivity of the Board's deliberations from the executive arm of the Company.

B. To mitigate any possible conflict of interests between the policy-making process and the day-to-day management of the Company.

C. To constructively challenge and contribute to the development of strategies for the Company.

D. To ensure that the Board uses adequate systems and controls to safeguard the interests of the Company.

E. To provide the 'check and balance' function to the Board.

F. To monitor and provide an objective view on the performance of the Executive Directors and the Management Team in meeting the agreed goals and objectives.

Independent Non-Executive Directors make up more than half of the Board members, a total of six (6) out of eight (8) of the members of the Board. All of them complied with the requirements of an independent director as prescribed by Bursa. By virtue of their roles and responsibilities as prescribed by Bursa, they are in effect, representing the interest of the minority Shareholders of the Company. The Independent Non-Executive Directors play a significant role in bringing impartiality and scrutiny to Board deliberations and decision-making, so that no single party can dominate such decision-making in the Company.

The Board is chaired by an Independent Non-Executive Director who does not represent the interest of the controlling shareholder. The Chairman and the Independent Non-Executive Directors do not engage in the day-to-day management of the Company nor participate in any business dealings with the Group. They do not have any equity interest in the Company, save for Dato' Frits van Dijk, who has 8,000 shares in the Company. The Chairman and the Independent Non-Executive Directors do not have any relationship with the substantial Shareholders that could materially interfere their exercise of independent judgment.

The Board, through the Nomination Committee, evaluated the independence of the Independent Non-Executive Directors using the assessment criteria as approved by the Board taking into account, among others, the Independent Non-Executive Directors' contribution, ability to display independent judgment in the boardroom, family relationship, contractual relationship, shareholding in the Group and financial links with other directors or Shareholders of the Group.

Although the Chairman has served more than nine (9) years cumulatively, the Board through its Nomination Committee has assessed his independence through the approved evaluation process and the Board is satisfied that he is independent.

Assessment of the independence of the Independent Non-Executive Directors will be conducted annually, both through peer-to-peer assessment and self-assessment. This will be completed before a declaration of independence of a Director is approved and confirmed.

Corporate Governance Statement

THE FOLLOWING ILLUSTRATES THE EVALUATION PROCESS OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company Secretary will distribute the independence assessment and declaration form to all Independent Non-Executive Directors for completion.

Each Independent Non-Executive Director will perform a peer assessment and a self review on his/her independence by completing the form.

The completed forms will be collated by the Company Secretary and submitted to the Nomination Committee for evaluation.

Nomination Committee will review the results of the completed forms based on the assessment criteria approved by the Board.

Findings from the Nomination Committee will be presented to the Board for deliberation.

ENSURING QUALITY IN FINANCIAL REPORTING

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

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

The external auditors attend all meetings of the Audit Committee. Twice a year, the external auditors attend meetings with the Audit Committee without the presence of the Management Team to raise concerns, if any. In addition, at least once a year, during the evaluation of the performance and independence of the external auditors, the Audit Committee will meet the Management Team without the presence of the external auditor.

The Audit Committee reports to the Board after each of its meetings. Minutes are taken at all meetings and are made available to all Board members and to the auditors.

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

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

On 28th February 2017, the Board approved the Audit Committee's recommendation for the re-appointment of the external auditors, KPMG PLT for Shareholders' approval at the coming 33rd Annual General Meeting 2017.

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

Corporate Governance Statement

CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors have attended and successfully completed the Mandatory Accreditation Programme as required under the Listing Requirements. All Directors are encouraged to attend continuous education programmes, talks, seminars, workshops and conferences to enhance their skills and knowledge and to ensure that the Directors keep abreast with new developments in the business environment and enhance their skills and knowledge. On an on-going basis, the Company identifies conferences and seminars which are beneficial for the Directors to attend and organises in-house training for the Directors.

In addition, the Company provides internal briefings to the Directors on key corporate governance developments and salient changes to the Listing Requirements, 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 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 development in areas relating to the Directors' roles and responsibilities, and they are encouraged to attend appropriate trainings on subject matters that aid the Directors in the discharge of their duties and responsibilities as Directors.

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

INTERNAL TRAINING	
1.	PwC Building Trust Award
2.	Overview on Ready To Drink Business
3.	Company's initiatives on CSV
4.	Nestlé Health Science
5.	Security of Nestlé Malaysia
6.	Overview on Nestlé Zone Asia, Oceania & Africa
7.	Human Resource
8.	Marketing Services and Social Media
9.	e-Commerce
10.	Overview on Food Laws, Regulations and Challenges
11.	Raw Material Sourcing
12.	Company's initiatives on Innovation & Renovation
13.	Nestlé Corporate Business Principles, Nestlé Code of Business Conduct and Anti-Corruption, Gifts & Entertainment Guidelines

The Directors and the Company Secretary attended all the internal trainings, save for Dato' Frits van Dijk, who did not attend the PwC Building Trust Award session.

DIRECTOR	EXTERNAL TRAINING
Y.A.M. TAN SRI DATO' SERI SYED ANWAR JAMALULLAIL	• Amendments to the Listing Requirements • Companies Bill 2015
DATO' MOHD. RAFIK BIN SHAH MOHAMAD	• Corporate Governance Breakfast Series: Future of Auditor Reporting - The Game Changer for Boardroom • Audit Committee Conference 2016 • Amendments to the Listing Requirements • Companies Bill 2015 • Essence of Independence – Independent Directors' Programme by Bursa
TAN SRI DATUK (DR.) RAFIAH BINTI SALIM	• Amendments to the Listing Requirements • Companies Bill 2015
DATO' FRITS VAN DIJK	• Amendments to the Listing Requirements • Companies Bill 2015
TAN SRI DATUK YONG POH KON	• Amendments to the Listing Requirements • Companies Bill 2015 • Essence of Independence – Independent Directors' Programme by Bursa

Corporate Governance Statement

DIRECTOR	EXTERNAL TRAINING
TOH PUAN DATO' SERI HAJJAH DR. AISHAH ONG	• Future of Auditor Reporting – The Game Changer For Boardroom • CG Breakfast Series with Directors:"The Strategy, the Leadership, the Stakeholders and the Board • Amendments to the Listing Requirements • Companies Bill 2015 • Embracing The Board's Role In Corporate Transformation • Essence of Independence – Independent Directors' Programme by Bursa
ALOIS HOFBAUER	• Amendments to the Listing Requirements • Companies Bill 2015 • Seminar on Responsible Business: Business Integrity Key to Sustainability • Lead & Deliver: An Executive Communication Workshop
MARTIN PETER KRUEGEL	• MSWG Institutional Investor Council - Stewardship Matters - For Long Term Sustainability • Amendments to the Listing Requirements • Companies Bill 2015
TENGKU IDA ADURA TENGKU ISMAIL (COMPANY SECRETARY)	• Amendments to the Listing Requirements • Companies Bill 2015 • Asian Women in Leadership Summit • Seminar on Responsible Business: Business Integrity Key to Sustainability • Corporate Mergers, Acquisitions and Reorganizations: The Industrial Relations Perspective • Malaysian Company Secretaries Conference 2016 • Lead & Deliver: An Executive Communication Workshop • NESLAW 2 by Nestlé S.A. - Driving the Legal Function Conference

BOARD REMUNERATION

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

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

Procedure

The Compensation Committee recommends to the Board the remuneration to be paid to each Director based on the remuneration policy as approved by the Board. It is nevertheless the ultimate responsibility of the entire Board to decide on the quantum for each director.

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

(a) Annual fixed fees for the Board and their respective Committees.
(b) Meeting allowance.

THE COMPOSITION OF THE REMUNERATION FOR THE NON-EXECUTIVE DIRECTORS ARE AS FOLLOW

A

Fees for acting as a Director

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

B

Fees for assuming additional responsibilities

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

Corporate Governance Statement

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

Meeting Allowance

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

For the year under review, the breakdown of the Directors' remuneration is as follows:

2016	Executive Directors	Non-Executive Directors
(MYR, in Gross)*		
Salaries	1,691,187.00	-
Directors Fees**	-	1,060,000.00
Emoluments***	1,240,027.82	179,000.00
Benefits****	1,800,486.55	-
TOTAL	4,731,701.37	1,239,000.00

* *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.*

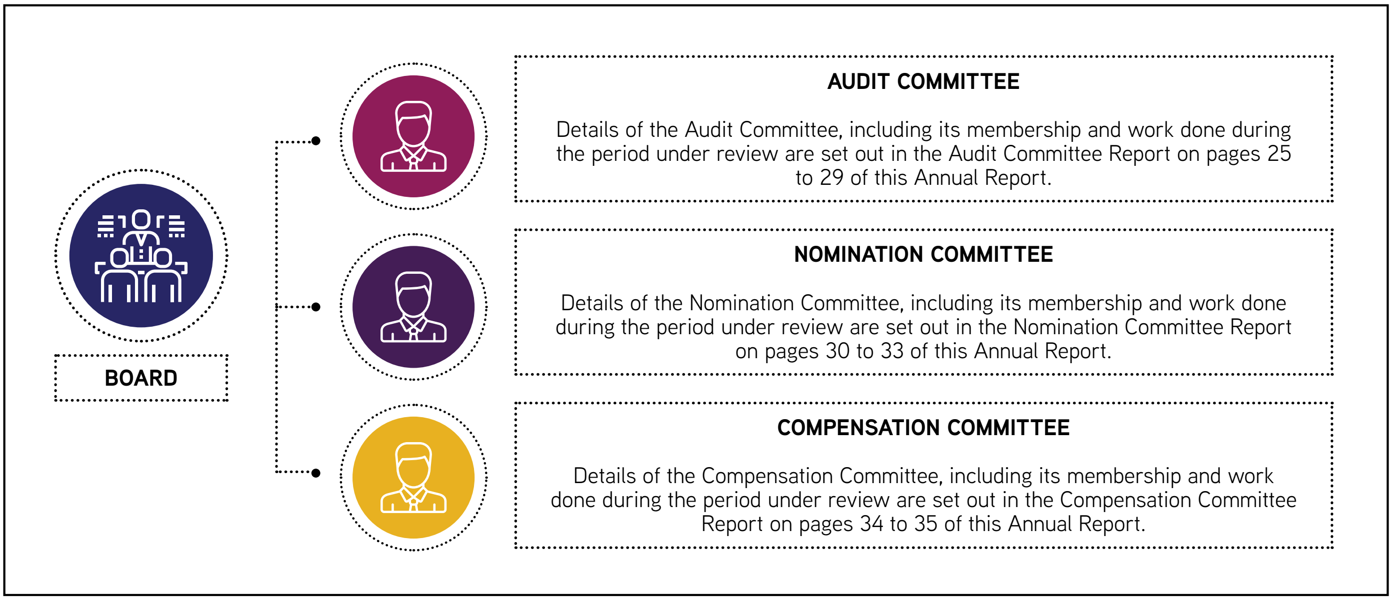
The number of Directors of the Company whose remuneration band falls within the following successive bands of MYR50,000 are as follows:

Ranges of Remuneration (MYR)	Executive Directors	Non-Executive Directors
(MYR, in Gross)		
100,001 – 150,000	-	1
150,001 – 200,000	-	4
400,001 - 450,000	-	1
1,650,001 – 1,700,000	1	-
3,050,001 – 3,100,000	1	-
TOTAL	2	6

Corporate Governance Statement

BOARD COMMITTEES

The following chart explains the responsibilities and the work that each Board Committee undertook on behalf of the Board during the period under review. The terms of reference and membership of all Board Committees are disclosed in full on our websites at www.nestle.com.my. They are also available upon request in writing to the Company Secretary.



SUPPLY OF INFORMATION

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

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

Presentations to the Board and the Board Committees are prepared and delivered in a manner that ensures 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.

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

Corporate Governance Statement

From time to time, whenever the Board requires relevant updates from any members of the Management Team, the relevant member of the Management Team is invited to attend meetings of the Board or the Board Committees to provide the Board/Board Committees with any such relevant information or updates. External advisers may also be invited to attend Board/Board Committee meetings, as the case may be, to provide additional insights and professional views, advice and explanations on specific items on the meeting agenda.

All Directors have direct access to the Management Team and have unrestricted access to all information and documents relevant to the business and affairs of the Group. The Board may invite any employee to be in attendance at the Board/Board Committee meetings to assist in their deliberations.

COMPANY SECRETARY

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

THE COMPANY SECRETARY UNDERTAKES, INTER-ALIA, THE FOLLOWING FUNCTIONS

a. Advise the Directors and Management Team of their duties and responsibilities and obligations to disclose their interest in securities, prohibition on dealing of securities during the closed period, restriction on disclosure of price sensitive information, disclosure of any conflict of interest and related party transaction as well as disclosure of necessary information as required under the relevant legal and regulatory requirements.

b. Prepare the agenda with the Chairman and CEO and notify all Directors of the Board and Board Committee meetings.

c. Attend all Board and Board Committee meetings and ensure that all meetings are properly convened and proceedings of the Board and Board Committee meetings and decisions thereof are properly recorded. Communicating decisions of the Board and Board Committees to the Management Team for necessary action, and to follow-up on proposals or matters tabled at the Board or Board Committee meetings.

d. Provide full access and services to the Board and Board Committees.

e. Assist the Board and the Chairman with interpreting legal and regulatory requirements, MCCG, Listing Requirements, the Companies Act 2016 and provide updates on relevant laws and regulatory developments.

f. Advise the Board on its obligatory requirements to disclose material information to the Shareholders and financial markets on a timely basis.

g. Notify the Chairman of any possible violations of legal and regulatory acts, if any.

h. Ensure the appointment of new Directors, re-election, appointment, retention and resignation of Directors are in accordance with the relevant legislations, regulations and best corporate governance practices.

i. Ensure the execution of all relevant assessments for Directors, the Board and Board Committees, such as independence and Board Effectiveness Evaluation.

j. Develop a Board induction programme for new Directors and brief new Directors on the organisational structure of the Company and procedures that regulate the operations of the Board.

k. Ensure availability of information as required by Directors for the proper discharge of their duties.

Corporate Governance Statement

THE COMPANY SECRETARY UNDERTAKES, INTER-ALIA, THE FOLLOWING FUNCTIONS

l. Monitor compliance with the principles and recommendations of MCCG, Listing Requirements, the Companies Act 2016 and informing the Board of any breaches.

m. Identify and arrange suitable training programmes for the Directors to ensure that the Directors are kept abreast of the latest enhancement in corporate governance and changes in the legal and regulatory framework.

The Directors have direct access to the advice and services of the Company Secretary. The Company Secretary works closely with the Management Team to ensure that timely and appropriate information flows to the Board and Board Committees, and between the Non-Executive Directors and the Management Team.

The Company Secretary constantly keeps herself abreast of the regulatory changes, latest enhancements and developments in sustainability, corporate governance and changes in the legal and regulatory framework, through continuous training. The Board is satisfied with the performance and support rendered by the Company Secretary to the Board in discharging her functions.

The profile of the Company Secretary is provided on page 47 of the Corporate Report 2016.

INDEPENDENT PROFESSIONAL ADVICE

The Directors in carrying out their duties, may seek independent professional advice at the Company's expense, should the need arise. If required, professional advisers, consultants, auditors and solicitors appointed by the Company to advise on specific matters are invited to the Board or Board Committee meetings to brief the Directors on their advice and opinion as well as to address issues of concern to the Directors.

If a Director considers that professional independent advice is necessary, he/she shall first discuss the intention with the Chairman and with the permission of the Chairman, bring the request to the Board for consideration. The reason for seeking independent professional advice and the proposed cost involved should be presented to the Board for approval and the Director concerned may proceed once the Board's approval is obtained.

BOARD MEETING ATTENDANCE

The Board meets in person at least four (4) times per year and on other occasions when a Board decision is required on major issues or specific matters. Details of Directors' attendance at the Board meetings held in 2016 are set out in the table below. The overall attendance rate of Directors at the quarterly scheduled Board meetings and scheduled Board Committee meetings was 100%. All Directors also attended the Annual General Meeting in 2016.

NAME OF MEMBERS	ATTENDANCE
Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail	4/4
Dato' Mohd. Rafik Bin Shah Mohamad	4/4
Tan Sri Datuk (Dr.) Rafiah Binti Salim	4/4
Dato' Frits van Dijk	4/4
Tan Sri Datuk Yong Poh Kon	4/4

Corporate Governance Statement

NAME OF MEMBERS	ATTENDANCE
Toh Puan Dato' Seri Hajjah Dr. Aishah Ong	4/4
Alois Hofbauer	4/4
Martin Peter Kruegel	4/4
Tengku Ida Adura Tengku Ismail (Company Secretary)	4/4

During the year under review, the Board convened a special meeting to discuss and approve the 2015 Annual Report. Attendance at the special meeting is set out below:

NAME OF MEMBERS	ATTENDANCE
Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail	1/1
Dato' Mohd. Rafik Bin Shah Mohamad	1/1
Tan Sri Datuk (Dr.) Rafiah Binti Salim	1/1
Toh Puan Dato' Seri Hajjah Dr. Aishah Ong	1/1
Alois Hofbauer	1/1
Martin Peter Kruegel	1/1
Tengku Ida Adura Tengku Ismail (Company Secretary)	1/1

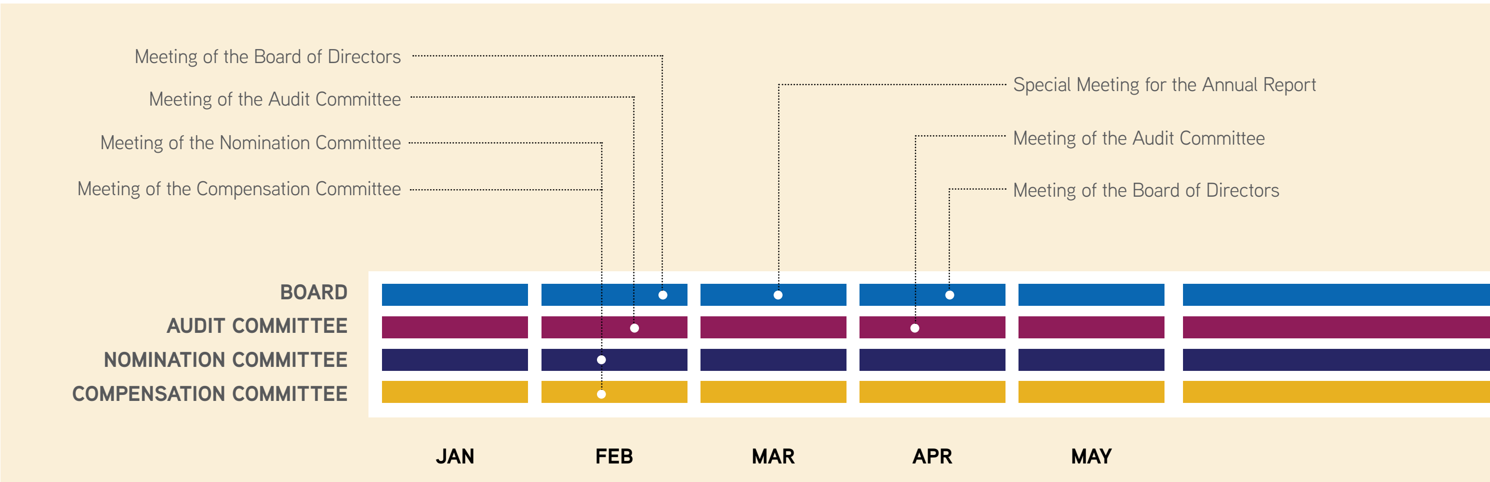
Dato' Frits van Dijk and Tan Sri Datuk Yong Poh Kon were unable to attend the special meeting.

Details of the respective Board Committee attendance can be found on pages 25, 30 and 34 of this Corporate Governance & Financial Report.

THE BOARD'S WORK IN 2016

All Board meetings during the year followed an agenda, which together with the documentation for each item on the agenda, was sent to the Board members in advance of the meetings. Meetings usually last for half a day or an entire day in order to allow time for presentations and discussions. The Board may invite any employee of the Company to attend its meetings in addition to the access of any form of independent professional advice and the services of the Company Secretary, if and when required in carrying out its functions. Tengku Ida Adura Tengku Ismail, the Executive Director, Legal and Secretarial, serves as secretary at the Board meetings.

OVERVIEW OF THE BOARD AND COMMITTEE MEETINGS 2016



Corporate Governance Statement

AUDIT COMMITTEE REPORT

PREAMBLE FROM AUDIT COMMITTEE CHAIRMAN

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

COMPOSITION

The Board has established the Audit Committee with three (3) members who are all Independent Non-Executive Directors, as follows:

Chairman
Y.A.M. Tan Sri Dato' Seri Syed Anwar Jamalullail
(Member of the Australian Society of Certified Practising Accountants; member of the Malaysian Institute of Accountants)

Dato' Mohd. Rafik Bin Shah Mohamad
(Fellow of the Association of Chartered Certified Accountants, United Kingdom; member of the Malaysian Institute of Accountants)

Tan Sri Datuk (Dr.) Rafiah Binti Salim

Meeting Attendance	● 4/4	● 4/4	● 4/4

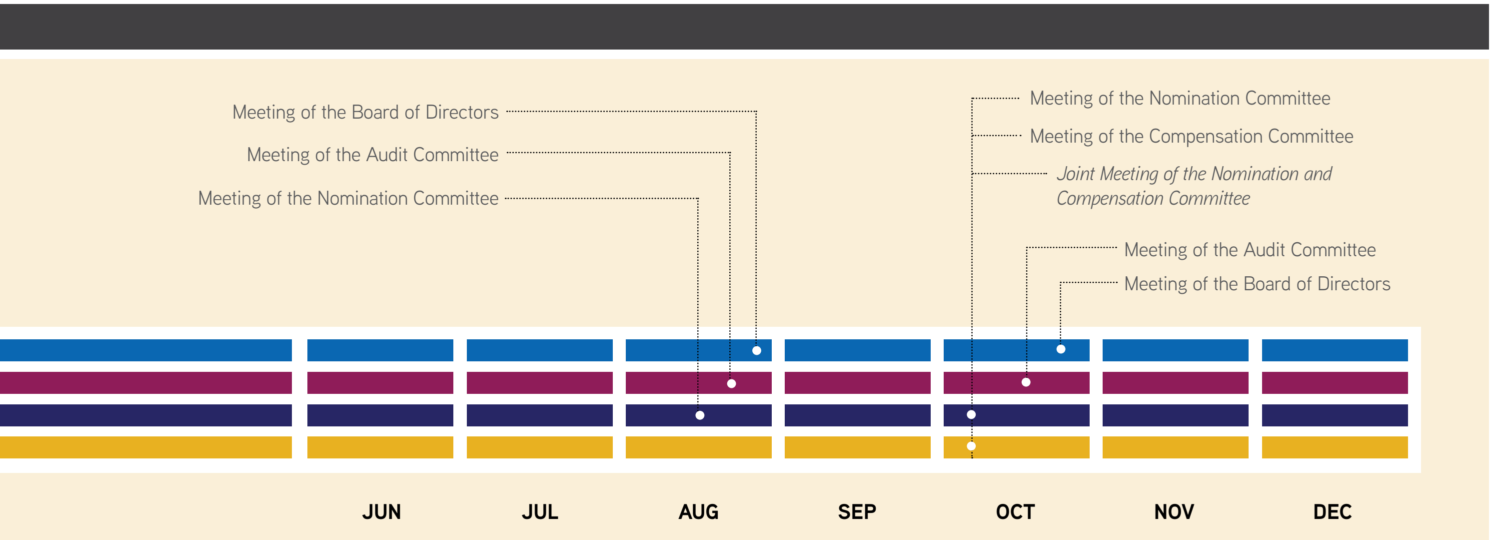
The Audit Committee is chaired by a Director who is a member of the Malaysia Institute of Accountants ("MIA"), appointed by the Board from its members.

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 MIA, whereas Tan Sri Datuk (Dr.) Rafiah Binti Salim was the Assistant Governor of the Central Bank of Malaysia. All members of the Audit Committee are financially literate and equipped with the required business skills. A quorum, established by the presence of the Chairman, and at least one (1) other member, has always been met for the meetings of the Audit Committee.

Upon invitation by the Audit Committee, the Chief Financial Officer ("CFO"), representatives of the external auditors, the Head of Nestlé Market Audit and the Head, Accounting & Consolidation, Insurance/ Pension have attended all the meetings. When there was a need by the Audit Committee, the relevant members of the Management Team were also invited to attend the meetings.

Key Objectives:

The provision of effective governance over the appropriateness of the Company's financial reporting including the adequacy of related disclosures, the performance of both the internal audit function and the external auditors and oversight over the Company's systems of internal control, business risks and related compliance activities. A full list of the Terms of Reference of the Audit Committee can be found online at www.nestle.com.my.



Corporate Governance Statement

DUTIES AND RESPONSIBILITIES

Internal and External Controls

- 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 conflict of interest situations, if any; and
- Rely on Nestlé's Group Audit for Information System/Information Technology ("IS/IT") related internal control risks.

Risk Management

In relation to risk management, to direct and oversee the formulation of the Group's overall enterprise risk management framework and strategies, including policies, procedures, systems, capability and parameters to identify, assess and manage risks to ensure their relevance and appropriateness to the Group's position and business.

- Advise and report on the overall risk appetite, tolerance and strategy on managing business risks;
- Report key business risks and seek approval on the management of key business risks that are aligned to the Group's risk appetite;
- Report on the effectiveness and progress of the mitigation efforts of key business risks;
- Recommend to the Board, the approval of and/or amendments to the Group risk management framework and the strategies, including policies, procedures, systems, capability and parameters, as relevant; and
- Consider the risks in context and recommend to the Board, mitigation of the risks identified.

Internal Audit

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

External Audit

- Receive and review the audit plans submitted by the external auditors, identifying their audit focus areas, planning materiality and related audit matters;
- Review of external auditors report;
- Review Management's responses to the external auditors' 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;
- Oversee the relationship with external auditors including making the recommendation on the appointment, re-appointment of the external auditors assessing their performance, independence and objectivity;
- Review and monitor the suitability and competency of the external auditors;
- Review and discuss on the external auditors' fee; 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, if any, 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 auditors; and
- Review compliance with all related party disclosures required by the Accounting Standards.

Corporate Governance Statement

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, is authorised to require any employee of the Group to supply such information and explanations as may be needed and to:

- 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 at least twice a year without the presence of the Management Team; and
- Convene meetings with external auditors, internal auditors or both, without the presence of the Management Team, whenever necessary.

The Committee and its Work:

The membership of the Committee has been selected with the aim of providing the wide range of financial and commercial expertise necessary to meet its responsibilities. All of the members of the Committee are Independent, Non-Executive Directors. The Committee meets at least four (4) times during the year as part of its standard processes, supplemented by additional meetings whenever necessary.

The Company Secretary of the Company acts as the Secretary of the Committee who is in attendance of all meetings and records the proceedings of the meeting. The 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 and recommendations of the Audit Committee for the Board's consideration and approval. The Audit Committee continuously reviews and updates its Terms of Reference with the last review carried out on 27th February 2017 and approved by the Board on 28th February 2017.

MAIN ACTIVITIES OF THE COMMITTEE DURING THE YEAR

- Review and approve the cumulative full year results for the financial year ended 31st December 2015 and cumulative 1st half year results for the financial year ended 31st December 2016.
- Review and approve the Quarterly Results for the financial year ended 31st December 2016.
- Approve the Directors' Report and Audited Accounts for the financial year ended 31st December 2015.
- Recommend to the Board the dividend payments.
- Review of financial results announcements before recommending them for Board's approval.
- Review of the Group's compliance with the Listing Requirements, Malaysian Accounting Standards Board ("MASB") and other relevant legal and regulatory requirements with regards to the quarterly and year-end financial statements.
- Review and approve the Audit Committee Report and the Terms of Reference of the Audit Committee to be disclosed in the Annual Report.
- Review the 2015 overall performance and the quarterly performance of the Nestlé Market Audit team.
- Review the performance of the individual members of the Nestlé Market Audit team.

Corporate Governance Statement

MAIN ACTIVITIES OF THE COMMITTEE DURING THE YEAR

- Review Nestlé Market Audit's resource requirements, scope, adequacy and function.
- Review Nestlé Market Audit's report, recommendations and Management responses.
- Review the implementation of these recommendations through follow up audit reports and suggested additional improvement opportunities in the areas of internal control, systems and efficiency improvement.
- Review and take cognizance of the movements of Nestlé Market Audit staff members.
- Note and discuss the outcome of Assessment of the Objectivity, Independence and Quality of Service Delivery of the Group's external auditors for the year ended 31st December 2015 and to ensure the external auditors meet the criteria provided by Paragraph 15.21 of the Listing Requirements.
- Review External Auditors' report and results, management letter and the response from the Management Team.
- Discuss with External Auditors on issues/matters arising from the audit.
- Discuss with External Auditors on issues/matters related to Management arising from the audit (in the absence of Management).
- Recommend the re-appointment of the Group's external auditors for the financial year ending 31st December 2016 and for the Directors to fix their remuneration.
- Update on the development of Internal Audit practices.
- Review the Recurrent Related Party Transaction by the Company.
- Review and approve the draft Circular to Shareholders in relation to the Proposed Renewal of Shareholders' Mandates for Recurrent Related Party Transaction of revenue or trading nature.
- Review risk management.
- Review and approve the Statement on Internal Control and Risk Management for the Annual Report 2015.
- Report on major litigation, claims and/or issues with substantial financial impact (if any).
- Review the current status of complaints received through the Non-Compliance Hotline.
- Receive updates on the Nestlé Malaysia Group Retirement Scheme (pension fund).
- Review the assistance given by employees to the external auditors.
- Review the effectiveness of the Audit Committee meeting.
- Review the Audit Plan for 2017.
- Approve the Audit Committee Agenda for 2017.

Corporate Governance Statement

Nestlé Malaysia Internal Audit Department

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 Department, 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 43 to 46 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 Ms. Genevieve Yeoh Swee Hoon, 46 years of age, has served the Company for 16 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.

Ms. 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 31st December 2016 is MYR1,148,824.

RELATIONSHIP WITH EXTERNAL AUDITORS

The Group's transparent and professional relationship with the external auditors is primarily maintained through the Audit Committee. The key features underlying the Audit Committee's relationship with the external auditors are detailed in the Report on the Audit Committee of this Corporate Governance & Financial Report on pages 44 and 46. Engagement of the Company's external auditors are reviewed by the Audit Committee prior to submission to the Board for approval.

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

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

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

The Audit Committee has also obtained confirmation from the external auditors that they are and have been, independent throughout the conduct of the audit engagement. Further, in ensuring the independence of the external auditors, the Audit Committee does impose a requirement on the external auditors to rotate the audit partner responsible for the Company audit every five (5) years. In this regard, the Board is satisfied with the suitability and the independence of the external auditors.

The fees paid/payable to the external auditor, KPMG PLT, in the financial year ended 2015 and 2016 were as follows:

	2016 (RM'000)	2015 (RM'000)
Audit and Remuneration	351	288
Permissible audit related and non-audit services*	174	230
Tax compliance review	24	25
Total	549	543

* The non-audit fee represents about 32% of the total fees to external auditors, which consist of amongst others, a one-time consultancy work in relation to system verification for setting-up of the new Nespresso business unit in Malaysia.

Corporate Governance Statement

NOMINATION COMMITTEE REPORT

PREAMBLE FROM NOMINATION COMMITTEE CHAIRMAN

"The Nomination Committee continues its work of ensuring the Board composition is right and that our governance is effective."

COMPOSITION

The Board has established the Board Nomination Committee with three (3) members who are all Independent Non-Executive Directors, as follows:

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

Dato' Frits van Dijk

Tan Sri Datuk Yong Poh Kon

Meeting Attendance	Nomination Committee	3/3	3/3	3/3
	Joint Nomination & Compensation Committee	1/1	1/1	1/1

Key Objectives:

To make sure the Board comprises individuals with the necessary skills, knowledge and experience to ensure that it is effective in discharging its responsibilities and to have oversight of all matters relating to corporate governance. A full list of the Terms of Reference of the Nomination Committee can be found online at www.nestle.com.my.

Responsibilities:

- Leads the process for identifying and making recommendations to the Board regarding candidates for appointment as directors, giving full consideration to succession planning and the leadership needs of the Company.
- Regularly reviews and makes recommendations in relation to the structure, size and composition of the Board including the diversity and balance of skills, knowledge and experience, and the independence of the Independent Non-Executive Directors;
- Oversees the performance evaluation of the Board, the Board Committees and individual Directors (see page 14);
- Reviews the succession plans, policy on board composition and board diversity (including gender, ethnicity and age diversity) and reviews the management development and succession plans for the Management Team of the Company;
- Makes recommendations to the Board on the composition of the Board and Board Committees; and
- Reviews the tenure of each of the Non-Executive Directors.

The Committee and its Work:

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

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

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

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

The Nomination Committee continuously reviews and updates its Terms of Reference with the last review carried out on 7th February 2017 and approved by the Board on 28th February 2017.

Corporate Governance Statement

MAIN ACTIVITIES OF THE COMMITTEE DURING THE YEAR

- Evaluate the size, structure, function, balance and composition of the Board and the Board Committees, including the required mix of skills and experience, core competencies of the Directors for the effective and efficient functioning of the Board and the Board Committees.
- Discuss on the evaluation to be made on the contribution, performance including core competencies and the effectiveness of the Board, the Board Committees and the individual Directors.
- Review the term of office and evaluate the contribution, performance including core competencies and the effectiveness of the Board and individual Directors, the Audit Committee, Nomination Committee, Compensation Committee and each member of the Board Committee to determine whether they have carried out their duties in accordance with their term of reference.
- Facilitate the implementation of 2016 Board Effectiveness Evaluation and review the results thereof.
- Review and ensuring the completion of the 2015 Board Improvement Programme.
- Assess the independence and time commitment of each Independent Directors.
- Review the declaration of directorship by each Director.
- Discuss and approve the policies on succession plans and Board diversity (including gender, ethnicity and age diversity) for Non-Executive Directors.
- Discuss and approve the policy on the age limit and tenure of directorship, in particular, on the adoption of the 72 age limit for Directors.
- Review and discuss the retirement schedule for Non-Executive Directors.
- Assess the retirement of Directors by rotation, the re-election, re-appointment or retention of Directors and eligibility for re-election, re-appointment or retention.
- Assess the training needs of the Directors.
- Review the trainings attended by each Directors from 2015 onwards and approving the 2016 Training Programme for the Board.
- Review the management development and succession plans for the Executive Leadership Team and the Nestlé Leadership Team.
- Review and approve together with the Compensation Committee the proposed Remuneration Direction 2017.
- Review and discuss the proposed draft Malaysian Code on Corporate Governance 2016.
- Review and approve the revised Terms of Reference of the Nomination Committee.
- Review and approve the Nomination Committee Report to be disclosed in the Annual Report.
- Review the effectiveness of the Nomination Committee meeting.
- Approve the Nomination Committee Agenda for 2017.

Corporate Governance Statement

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

The following Directors will be retiring at the forthcoming AGM 2017 and are eligible for re-election/re-appointment/retention:

(i) Re-election as Directors pursuant to Article 90.1 of the Company's Articles of Association, comprising part of the Constitution of the Company:

- Tan Sri Dato' Seri Syed Anwar Jamalullail
- Dato' Frits van Dijk

(ii) Re-appointment of Directors who had been re-appointed in the previous AGM held on 28th April 2016 as Directors under Section 129(6) of the former Companies Act 1965, which was then in force and whose term would expire at the conclusion of the 33rd AGM as Directors of the Company:

- Toh Puan Dato' Seri Hajjah Dr. Aishah Ong
- Tan Sri Datuk Yong Poh Kon

(iii) Retention of Independent Directors pursuant to Recommendation 3.3 of the MCCG:

- Tan Sri Dato' Seri Syed Anwar Jamalullail

ASSESSMENT AND RECOMMENDATION ON RE-ELECTION/ RE-APPOINTMENT/RETENTION OF DIRECTORS

(i) Re-election of Tan Sri Dato' Seri Anwar Jamalullail pursuant to Article 90.1 of the Company's Articles of Association and retention of Tan Sri Dato' Seri Syed Anwar Jamalullail pursuant to Recommendation 3.3 of the MCCG.

Tan Sri Dato' Seri Syed Anwar Jamalullail, age 65 was first appointed as a Non-Independent Non-Executive Director of the Company on 25 February 2002 and later re-designated to be an 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 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.

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 and Pulau Indah Ventures Sdn. Bhd. (a joint venture company between Khazanah Nasional Berhad and Temasek Holdings of Singapore).

The recommendation to re-elect Tan Sri Dato' Seri Anwar Jamalullail is based on his exemplary leadership and dedication to his responsibilities as the Chairman of the Board and his in-depth understanding and knowledge of the Company's business as well as the strategies and direction of the Company. His vast knowledge and expertise on corporate matters of different industries and environment and his experience in various companies and capacities suits the Company's required mix of skills and Board diversity. There is no doubt that Tan Sri's leadership has ensured effective check and balance in the proceedings of the Board and the Board Committees and encourages active participation from all members of the Board. He is practical in his analysis and assessment and is able to provide practical guidance to the Management Team in strategy matters. He is also vocal in his outlook and views and has provided the Board with a strong and principled voice. Tan Sri's unwavering support to the Company's initiatives in implementing different strategies in moving the Company forward and strengthening the Company's credibility and reputation as the leader in the food and beverage industry proved to be invaluable to the Company especially in times when the general market outlook has been quite uncertain. The proposed resolution would also allow him to serve as Chairman of the Audit Committee pursuant to the requirements of Paragraph 15.10 of the Listing Requirements.

Corporate Governance Statement

(ii) Re-election of Dato' Frits van Dijk pursuant to Article 90.1 of the Company's Articles of Association.

The recommendation to re-elect Dato' Frits van Dijk is supported by his vast experience in the Nestlé Group and in-depth knowledge of the Company's business operations. His background as an Executive Vice President and Head of Asia, Oceana, Africa and Middle East of Nestlé Group as well as his extensive knowledge and experience of Nestlé's operations in different jurisdictions around the world means he is well positioned in sharing ways in improving the Company's operations and driving the Company further in terms of performance in Malaysia.

(iii) Re-appointment of Toh Puan Dato' Seri Hajjah Dr. Aishah Ong.

Toh Puan Dato' Seri Hajjah Dr. Aishah Ong, age 72 was appointed as an Independent Non-Executive Director of the Company on 28th 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 responsibility 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 CSV). 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.

(iv) Re-appointment of Tan Sri Datuk Yong Poh Kon.

Tan Sri Datuk Yong Poh Kon, age 71 was appointed as an Independent Non-Executive Director of the Company on 25th April 2011.

The recommendation for the re-appointment of Tan Sri Datuk Yong Poh Kon is supported by his contributions to the Board 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 and former Co-Chair of PEMUDAH (a Special Taskforce to Facilitate Business) and as a current member of the Economic Council contributed greatly to the Company.

As the Board has just adopted a limit of 72 years of age for the Directors, it has been agreed that there would be a transition period until 2018. Thus, even though Toh Puan Dato' Seri Hajjah Dr. Aishah Ong and Tan Sri Datuk Yong Poh Kon will both turn 72 in 2017, their tenure of directorship will continue until the next Annual General Meeting in 2018. In the meantime, during this transition period, the Board will work towards identifying new directors, bearing in mind the composition and diversity of the Board.

Corporate Governance Statement

COMPENSATION COMMITTEE REPORT

PREAMBLE FROM COMPENSATION COMMITTEE CHAIRMAN

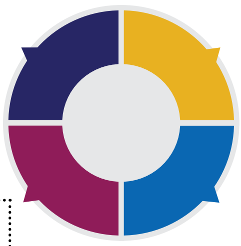
"Our compensation policy and executive pay packages are designed to be competitive and drive behaviour in order to achieve long-term strategic goals. When making decisions we are mindful of the wider economic conditions and market competitiveness."

COMPOSITION

The Board has established the Board Compensation Committee with four (4) members, 3 of whom are Independent Non-Executive Directors, as follows:

Chairman
Dato' Mohd. Rafik Bin Shah Mohamad

Dato' Frits van Dijk



Tan Sri Datuk (Dr.) Rafiah Binti Salim

Alois Hofbauer

Meeting Attendance	Compensation Committee	● 2/2	● 2/2	● 2/2	● 2/2
	Joint Nomination & Compensation Committee	● 1/1	● 1/1	● 1/1	● 1/1

Key Objectives:

To assess and make recommendations to the Board on the policies for remuneration of Directors and employees of the Company. A full list of the Terms of Reference of the Compensation Committee can be found online at www.nestle.com.my.

Responsibilities:

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

The Committee and its Work:

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

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

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

The Compensation Committee reviews at least once in every three (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 considers 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 Compensation Committee makes a recommendation to the Board.

Corporate Governance Statement

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. The details are on pages 19 to 20.

For the remuneration package of Executive Directors and the Management Team, the Compensation 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 local policy and 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.

The Compensation Committee is satisfied that the remuneration packages are competitive in order to attract and retain talent.

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.

The Compensation Committee continuously reviews and updates its Terms of Reference with the last review carried out on 7th February 2017 and approved by the Board on 28th February 2017.

MAIN ACTIVITIES OF THE COMMITTEE DURING THE YEAR

- Review the approved Remuneration Direction 2016.
- Review and discuss the remuneration for Non-Executive Directors and to propose for approval at the AGM.
- Review the remuneration for the Executive Directors.
- Review the remuneration of the Executive Leadership Team and Nestlé Leadership Team.
- Review and approve the proposed Remuneration Direction 2017.
- Review the management development and succession plans for the Executive Leadership Team and Nestlé Leadership Team.
- Review the employees attrition rate across all levels.
- Receive updates on the status of the Collective Agreements.
- Review the revised Terms of Reference of the Compensation Committee.
- Review and approve the Compensation Committee Report to be disclosed in the Annual Report.
- Review the effectiveness of the Compensation Committee meeting.
- Approve the Compensation Committee Agenda for 2017.

JOINT MEETING OF THE NOMINATION AND COMPENSATION COMMITTEE

A joint committee meeting between the Nomination and Compensation Committees was convened during the year under review, to discuss issues of common interests. Such issues included the succession plans and management developement plans of the Executive Leadership Team and Nestlé Leadership Team, potential succession of key Management Team positions and also the proposed remuneration direction for the year 2017.

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

Corporate Governance Statement

STRENGTHENING THE RELATIONSHIP BETWEEN THE COMPANY AND ITS SHAREHOLDERS

COMMUNICATION WITH SHAREHOLDERS

We aim to present a clear and balanced assessment of our financial position and prospects. Quarterly financial results are announced as early as possible (refer to table below), and audited financial statements are published within three (3) months after the end of the financial year. Quarterly statements are issued to keep Shareholders informed of the performance and operations of the Company.

2016 Quarterly Results	Date of Issue/Release	Number of Days after End of Quarter
1st Quarter	26th April 2016	26
2nd Quarter	22nd August 2016	53
3rd Quarter	25th October 2016	25
4th Quarter	28th February 2017	59

INVESTOR RELATIONS

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

In 2016, the Company held four (4) quarterly briefings and the Company also engaged with institutional investors on a regular basis.

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

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

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

Name : Martin Peter Kruegel
Designation : CFO
Age : 49 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 6000
E-mail : InvestorRelations.Malaysia@my.nestle.com

DISCLOSURE OF INFORMATION

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

Corporate Governance Statement

REPORTING VIA THE INTERNET

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

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

Investors
- Business Review
- Group Financial Highlights
- 5 Years' Statistics
- Annual Report
- Corporate Governance
- Supporting the WHO Code
- Your Life in Food

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

MEDIA COVERAGE

Media coverage on the Company through print media or television coverage, is also initiated proactively at regular intervals to provide wider publicity and improve the general understanding of the Company's business among investors and the public.

Key media coverage during the year under review:

Media	Date	News Highlight
New Straits Times	16th June 2016	Innovation and the future of Nestlé
	17th June 2016	Adopting local flavours recipe for success
	17th June 2016	Healthy product options
	26th October 2016	Dreams can come true at KIT KAT CHOCOLATORY Factory Online news could be located at *http://www.nst.com.my/news/2016/10/183507/dreams-can-come-true-kitkat-chocolatory-factory*
Berita Harian	16th June 2016	*Nestlé tumpu inovasi, tingkat perniagaan*
The Star	6th August 2016	Nestlé reinvents itself
	6th August 2016	Strong following for consumer stocks
Marketing Magazine	7th October 2016	Nestlé Malaysia ties up with Lazada and 11street, targets RM500 million revenue Online news could be located at *http://www.marketing-interactive.com/nestle-malaysia-ties-lazada-11street-targets-rm500-mln-e-commerce-sales/*
Bernama	6th December 2016	Nestlé Malaysia Strong, Formidable Food Giant After 104 Years In Malaysia Online news could be located at *http://www.bernama.com/bernama/v8/bu/newsbusiness.php?id=1308699*

Corporate Governance Statement

GENERAL MEETINGS

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

The Company sends out the Notice of the AGM and related circular to Shareholders at least 21 days before the meeting as required under the Listing Requirements, in order to facilitate the full understanding and evaluation of the issues involved.

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

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

To strengthen the Company's corporate governance, all resolutions set out in the Notice of the AGM, will be put to e-voting, during the AGM. A press conference will be held immediately after the AGM where the Chairman, the CEO 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 AGM is announced to Bursa on the same meeting day.

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

The 33rd Annual General Meeting will be held on 27th April 2017 at the Hilton Kuala Lumpur Hotel.

INSTILLING SUSTAINABILITY

The Board is cognisant of the importance of business sustainability and is mindful of the impact of its operations on the environment. The social aspect and governance are also taken into consideration. The Group strongly embraces sustainability in its operation, throughout its value chain and in partnership with its Stakeholders, including suppliers, customers and other organisations.

The Nestlé in Society Report ("NiS") 2016, published together with this Corporate Governance & Financial Report, describes in detail the delivery of social and environmental value in 2016 and contributes to integrated reporting about all aspects of our activities.

The NiS Report discloses our achievements and shortcomings in managing the social and environmental aspects of our business in a comprehensive, honest and accessible way. It also includes an independent assurance report from PricewaterhouseCoopers. We welcome feedback on the Corporate Report, Corporate Governance & Financial Report and the NiS Report which form our Annual Report 2016.

INTERNAL CONTROLS

The Board recognises that the ultimate responsibility in ensuring the Company's sound internal control system and reviewing its effectiveness lies with the Board. The Board Committees each have defined roles as detailed on pages 43 to 44 of this Corporate Governance & Financial Report, aimed at supporting the Board's oversight of proper implementation of governance, risk management and control systems. The Statement on Risk Management and Internal Control which provides the key features of the risk management framework and an overview of the internal control system of the Company is set out on page 44 of this Corporate Governance & Financial Report.

Corporate Governance Statement

ADDITIONAL COMPLIANCE

I. WHO Code Ombudsperson System

The Group strongly believes that breastfeeding is the best for babies. We support the WHO International Code of Marketing of Breast-milk Substitutes ("WHO Code") and have implemented strong procedures to ensure that the Group complies with it.

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

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

II. Nestlé Supplier Code

The Nestlé Supplier Code defines the non-negotiable minimum standards that the Group expects from its suppliers and their sub-tier suppliers, to respect and to adhere to when conducting business with the Group. This document helps the continued implementation of the Group's commitment to international standards such as the OECD Guidelines for Multinational Enterprises, the United Nations Guiding Principles on Business and Human Rights, the Core Conventions of the ILO and the ten (10) Principles of the United Nations Global Compact, beyond the Group's own operations, to every link of our upstream supply chain back to farms and plantations. The Code is an extension of the Nestlé Corporate Business Principles and the foundation of our Responsible Sourcing program.

III. Personal Data Protection

In light of the Personal Data Protection Act 2010 ("PDPA") which has come into effect on 15th 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 31st December 2016, apart from on-going consultations with business units and functions on privacy law issues in day-to-day operations. The Group has continuously kept its privacy practices updated with continuous engagement with relevant business and function units responsible over personal data.

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.

IV. Compliance Framework Structure

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

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

Corporate Governance Statement

(a) Compliance Programme

Under the compliance programme, the Compliance Champions conduct regular compliance documents review and compliance gaps assessment in their respective business and function units involving all employees. The Compliance Champions then ensure that any compliance gaps are resolved.

The Compliance Champions also carry out various activities to increase awareness within their business and function units. These activities are essential towards instilling the compliance culture.

(b) Compliance Committees Meetings

For the financial year ended 31st December 2016, three (3) meetings of the Compliance Steering Committee were convened whereby the various initiatives and directions under the compliance programme were presented by the Market Compliance Officer and further deliberated and endorsed by the Compliance Steering Committee before they were cascaded for implementation by the Market Compliance Officer and the Compliance Champions Committee.

There were five (5) meetings convened by the Compliance Champions Committee. The Compliance Champions Committee meetings were chaired by the CFO and, apart from sharing the direction and endorsements of the Compliance Steering Committee, the agenda of the meetings typically involve discussions on refining the compliance programme's initiatives and tools, updating the progress of various initiatives under the compliance programme and updating the status of various plans.

V. Consumers

Guided by the Nestlé Quality Policy and the Nestlé Consumer Communication Principles, the Group's products and brands are developed, manufactured and marketed in a responsible manner. In order to achieve the Group's vision of uncompromising quality, the Group maintains one (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.

VI. Competition Law and Antitrust Policy

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

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

In the year 2017, the Group will continue to put in place action plans in reviewing and ensuring that the Group's existing business transactions and practices continue to adhere to current competition laws and are conducted within the framework of the Nestlé Antitrust Policy.

VII. Business Ethics and Fraud Committee ("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, and chaired by the CEO, ensures an investigation is conducted when needed, reviews the investigation report and decides on the next course of action based on the nature of the violation. Reports and updates are presented and discussed at the Audit Committee meetings prior to it being presented to the Board.

Corporate Governance Statement

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 Company. An early warning system such as a whistleblowing policy and procedure can help the Company to detect wrongdoings and alert the Company to take corrective actions before a problem becomes a crisis.

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

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.

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 alleged non-compliance situation in the Group as illustrated in the diagram below:

TELEPHONE

1 800-88-4307

Dial 1800-88-4307
(Toll Free Number)

Key in Access Code 41830
(Select language)

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

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

EMAIL

Noncompliance.mailbox@my.nestle.com

Write an email detailing your
concern(s)

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

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

INTERNET

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

Key in Access Code 41830
(Select new message)

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

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

In 2016, ten (10) complaints were received via the Non-Compliance Hotline.

Corporate Governance Statement

RELATED PARTY TRANSACTIONS

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

The Company 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 Company with its related parties from 28th April 2016 (the date of the last Annual General Meeting) to 1st March 2017, are as follows:

- purchases of semi-finished and finished food products from Nestlé affiliated companies which amounted to approximately RM454 million;
- payment of royalties for the use of trademarks for the sale of food products to Nestlé affiliated companies amounting to approximately RM230 million;
- payment for information technology shared services for use and maintenance of information technology services to Nestlé affiliated companies which amounted to RM35 million;
- sale of food products to Nestlé affiliated companies amounting to approximately RM778 million;
- billing for shared services of approximately RM2.3 million for Cereal Partners (Malaysia) Sdn. Bhd., RM2.1 million for Purina Petcare (Malaysia) Sdn. Bhd. and RM2.3 million for Wyeth Nutrition (Malaysia) Sdn. Bhd.

COMPLIANCE STATEMENT BY THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE STATEMENT

The Board has deliberated, reviewed and approved this Corporate Governance Statement. Pursuant to Paragraph 15.25 of the Listing Requirements, the Board is pleased to report that the Board is satisfied that to the best of its knowledge the Company has fulfilled its obligations in accordance with all of the applicable laws, regulations, internal and external guidelines on corporate governance throughout the financial year ended 31st Decemeber 2016. This Corporate Governance Statement was presented and approved at the meeting of the Board on 28th February 2017.

On behalf of the Board

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

HOW WE APPROACH RISK

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

BOARD OF DIRECTOR'S RESPONSIBILITIES

The Board and the Management Team are responsible and accountable for the establishment of the Group's system of risk management and internal control. The Audit Committee supports the Board in monitoring our risk exposures, the design and operating effectiveness of the underlying risk management and internal controls systems. The Audit Committee assists the Board, to oversee the following processes:

(i) periodic reviews of the principal business risks, and control measures to mitigate or reduce such risks; the strengths and weaknesses of the overall internal controls system and action plans to address the weaknesses or to improve the assessment process;
(ii) periodic reviews of the business processes and operations reported by the Internal Audit Department, including action plans to address the identified control weaknesses and implementation of recommendations; and
(iii) reports by the external auditors of any control issues identified in the course of their audit related and non-audit related work and the discussion with the external auditors of the scope of their respective review and findings.

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

The Board considers the works and findings of the Audit Committee in forming its own view on the effectiveness of the system.

(Please also see "Audit Committee Report" on pages 25 to 29 regarding the Committee's detailed review work, including the forms of "assurance" received from management, external auditor, and internal auditor). Our Board's responsibilities include:

The governance of risk.	**Determination of the levels of risk tolerance.**	**Delegation to Management the responsibility to design, implement and monitor risk management.**	**Ensuring that risk assessments are performed continually.**
1	2	3	4
Ensuring that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.	**Ensuring continual risk monitoring by Management.**	**Receiving assurance regarding the effectiveness of the risk management process.**	**Ensuring that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to Stakeholders.**
5	6	7	8

Statement on Risk Management and Internal Control

OUR 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 2012"). 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 guided by its Audit Charter with the Head of Audit reporting functionally to the Audit Committee and administratively to the CFO. The function is independent of the activities of other operating units and undertakes to review all policies and processes of the Group and its relationship with third parties. It provides the Board through the Audit Committee with an independent opinion on the processes, risk exposures and systems of internal controls of the Group. The responsibilities of the Nestlé 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.**

On a quarterly basis, the results of internal audits are reported to the Audit Committee and the report of the Audit Committee is a permanent agenda in the meeting of the Board. The Management Team's response on each internal audit recommendation and action plans therein, are regularly reviewed and followed up by the Nestlé 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 31st December 2016, the Nestlé Market Audit conducted nine (9) internal audits across corporate functions, warehouse and business units. No 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 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 31st December 2016, based on the approved annual audit plan and the risk assessment, one (1) audit was 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.

Statement on Risk Management and Internal Control

How We Treat Risks

The Group monitors and minimises key risks in a structured and proactive manner. The major risks and the Group's response in order to manage and minimise them are described below.

RISK	IMPACT	MITIGATION
Societal perception of the F&B Industry	Financial impact, Impact on reputation	• Improvement on enhancing nutritional profile & health benefits of portfolio.
Regulatory action against the F&B Industry	Financial impact, Impact on reputation	• Compliance to the Nestlé Marketing Communication to Children Policy.
Resource Sustainability, Scarcity & Security	Financial impact, Impact on reputation	• Sustainable Agriculture Initiative at Nestlé (# SAIN drives implementation of good agricultural practices at farm level). • Water stewardship: Water withdrawal reduction efficiency programs, community engagement (access to water, sanitation or hygiene projects).
Sustainability of the financial performance	Financial impact, People, Impact on reputation	• Capital Efficiency: sustained focus on Capex efficiency; working capital improvements; asset based optimisation.
People Related Challenges	Financial impact, People, Impact on reputation	• Drive Nestlé Values: Promote newly articulated Purpose, Integrity reporting system, Anti-Corruption Policy, NHW employee programme. • Leadership Development: Nestlè & I improvement on Line Management and Leadership.
Exposure to Quality Issues	Financial impact, Impact on reputation	• Trust in our ingredients: Global Food Safety Initiative (GFSI) implementation; high priority materials covered by Nestlé adulteration prevention process. • Detection: Early Warning System to identify, evaluate & anticipate potential emerging risks related to safety & quality of Nestlé products. • Food Safety IRT.
Disruption derived from External Context	Financial impact	• Business Continuity Plan (BCP) in place with periodic testing.
Digital revolution and disruptive technologies	Financial impact	• Data protection / cybersecurity: Global Privacy Governance Framework; creation of new global Personal Data Processing Standard; ISMS and Cybersecurity Operations Center to prevent/early detect cyberattack and prepare recovery plans in the event of an attack.

Statement on Risk Management and Internal Control

OTHER RISKS AND INTERNAL CONTROL PROCESSES

The overall governance structure and formally defined policy and procedures (via Company Standing Instructions) play a major part in establishing the control and 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.my) have been disseminated and communicated to the Group's employees.

These processes and procedures have been established and embedded across the whole organisation and provides assurance to all levels of management, including the Board. The Nestlé 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.

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

Financial information, key performance and risk indicators are also reported on a quarterly basis to the Board. In addition to the above, the Group leverages on the Nestlé Internal Control Self-Assessment Tool ("ICSAT") for all business units and corporate functions, 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 internal controls which may be shared with other Nestlé units across the world.

For the financial year ended 31st December 2016, based on the completed ICSAT for the Group, gaps in respect to the minimum internal controls as determined by the Group are being looked into. Improvement opportunities were identified and addressed with action plans for implementation against expected completion dates and persons responsible. The Risk Management and Control Framework Function performs the follow-up audit to assess and report on the status of these action plans (i.e. implemented, in progress, or pending) on a monthly basis to the CFO.

A Business Ethics and Fraud Committee meet periodically to review all complaints/allegations lodged via the Non-Compliance Hotline or any other avenues (e.g. phone, letter, e-mail) which are in line with the Whistleblowing policy of the Group as described in page 41 of this Corporate Governance & Financial Statement 2016. The Audit 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 CEO and CFO 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 MIA for inclusion in the annual report of the Group for the financial year ended 31st December 2016 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 28th February 2017.

FINANCIAL CALENDAR

DIVIDENDS

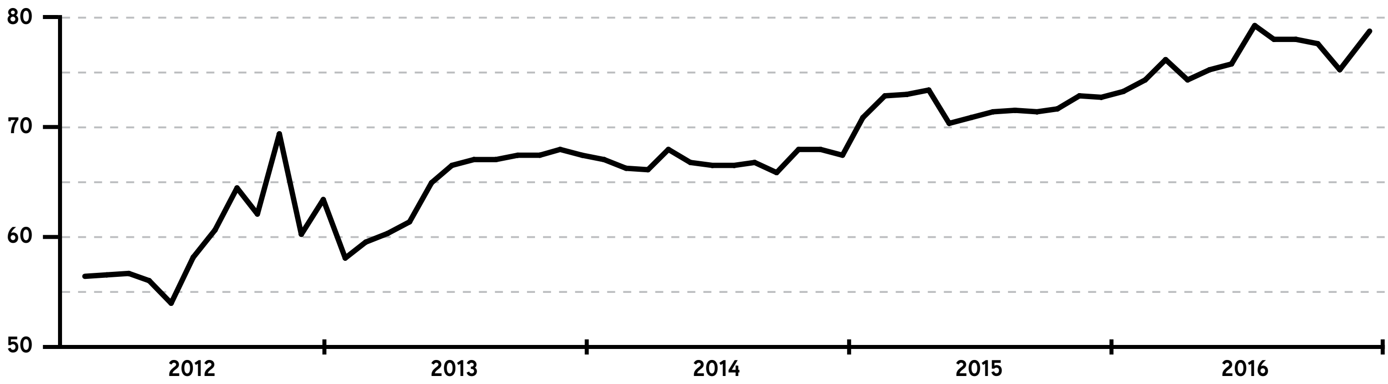
First Interim	- announced	- 22 August 2016
	- record date	- 8 September 2016
	- paid	- 29 September 2016
Second Interim	- announced	- 25 October 2016
	- record date	- 15 November 2016
	- paid	- 2 December 2016
Final	- announced	- 28 February 2017
	- record date	- 18 May 2017
	- payable	- 8 June 2017
ANNUAL GENERAL MEETING		- 27 April 2017

SHARE PERFORMANCE

	Calendar Year				
	2016	**2015**	**2014**	**2013**	**2012**
During the year					
Highest - RM	**81.80**	75.50	69.48	69.50	70.20
Lowest - RM	**73.00**	68.50	63.50	58.10	51.50

SHARE PRICES (BURSA MALAYSIA) - CLOSE

RM



GROUP FINANCIAL HIGHLIGHTS

		2016	2015	+ / (-)
Turnover	(RM'000)	**5,063,506**	4,837,957	4.7%
Earnings / Cash Flow				
Profit before tax	(RM'000)	**766,494**	727,711	5.3%
% of turnover		**15.1%**	15.0%	
Profit after tax and minority interest	(RM'000)	**637,127**	590,733	7.9%
% of turnover		**12.6%**	12.2%	
Dividends paid & proposed (net)	(RM'000)	**633,150**	609,700	3.8%
Depreciation of fixed assets	(RM'000)	**138,040**	125,845	
Cash flow (net profit + depreciation + amortisation)	(RM'000)	**775,167**	716,578	
Capital expenditure	(RM'000)	**123,136**	191,184	
Shareholders' funds	(RM'000)	**647,221**	708,596	
Personnel	(no.)	**5,505**	5,578	
Factories	(no.)	**8**	8	
Per Share				
Market price[1]	(RM)	**78.20**	73.40	
Earnings[2]	(sen)	**271.70**	251.91	
Price earnings ratio		**28.78**	29.14	
Dividend (net)	(sen)	**270.00**	260.00	
Dividend yield	(%)	**3.5**	3.5	
Dividend cover[2]	(no.)	**1.0**	1.0	
Shareholders' funds	(RM)	**2.76**	3.02	
Net tangible assets[3]	(RM)	**2.49**	2.75	

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

		2016 RM'000	2015 RM'000	2014 RM'000	2013 RM'000	2012 RM'000
Turnover		**5,063,506**	4,837,957	4,808,933	4,787,925	4,556,423
Earnings / Cash Flow						
Profit before tax		**766,494**	727,711	701,187	719,054	637,668
% of turnover		**15.1%**	15.0%	14.6%	15.0%	14.0%
Profit after tax and minority interest		**637,127**	590,733	550,384	561,701	505,352
% of turnover		**12.6%**	12.2%	11.4%	11.7%	11.1%
Dividends paid & proposed (net)		**633,150**	609,700	551,075	551,075	492,450
Depreciation of fixed assets		**138,040**	125,845	112,210	108,971	101,601
Cash flow (net profit + depreciation + amortisation)		**775,167**	716,578	662,594	670,672	606,953
% of turnover		**15.3%**	14.8%	13.8%	14.0%	13.3%
Capital expenditure		**123,136**	191,184	361,008	212,217	158,442
Employment of Assets						
Fixed assets (net)		**1,353,050**	1,369,874	1,293,757	1,046,463	945,812
Associated company		**4,224**	4,114	3,631	3,619	3,217
Intangible assets		**62,400**	62,814	61,024	61,024	61,024
Deferred tax assets		**20,155**	11,068	27,958	25,775	32,412
Receivables, deposits & prepayments		**24,745**	25,048	23,576	21,866	22,001
Net current (liabilities)/assets		**(546,807)**	(509,215)	(412,734)	(141,875)	(88,689)
Total		**917,767**	963,703	997,212	1,016,872	975,777
Financed by						
Share capital		**234,500**	234,500	234,500	234,500	234,500
Reserves		**412,721**	474,096	542,637	581,944	516,706
Total Shareholders' funds		**647,221**	708,596	777,137	816,444	751,206
Deferred taxation		**91,260**	77,539	67,522	82,748	74,858
Retirement benefit liabilities		**86,140**	81,117	62,486	25,337	54,546
Borrowings		**93,146**	96,451	90,067	92,343	95,167
Total		**917,767**	963,703	997,212	1,016,872	975,777
Per Share						
Market price[1]	(RM)	**78.20**	73.40	68.50	68.00	62.84
Earnings[2]	(sen)	**271.70**	251.91	234.71	239.53	215.50
Price earnings ratio		**28.78**	29.14	29.18	28.39	29.16
Dividend (net)	(sen)	**270.00**	260.00	235.00	235.00	210.00
Dividend yield	(%)	**3.5**	3.5	3.4	3.5	3.3
Dividend cover[2]	(no.)	**1.0**	1.0	1.0	1.0	1.0
Shareholders' funds	(RM)	**2.76**	3.02	3.31	3.48	3.20
Net tangible assets[3]	(RM)	**2.49**	2.75	3.05	3.22	2.94
Personnel	(no.)	**5,505**	5,578	5,702	5,847	5,669
Factories	(no.)	**8**	8	7	7	7

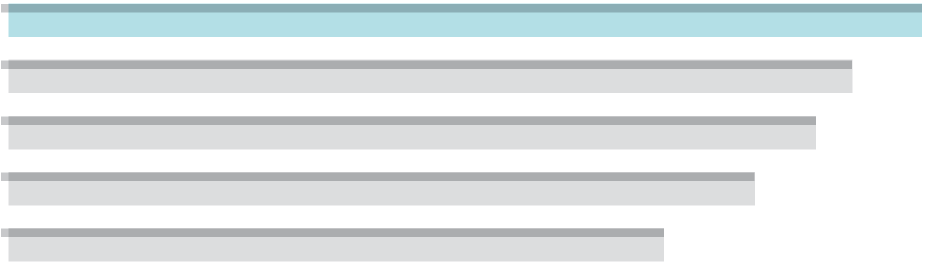
Notes :

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)

2016	**5,064**
2015	**4,838**
2014	**4,809**
2013	**4,788**
2012	**4,556**

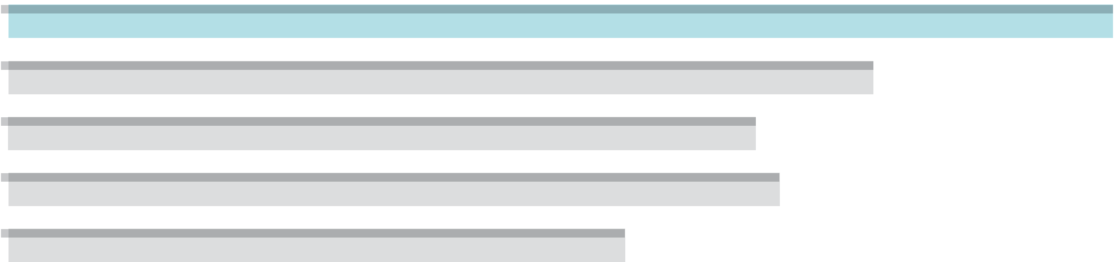


EARNINGS PER SHARE (sen)

2016	**271.7**
2015	**251.9**
2014	**234.7**
2013	**239.5**
2012	**215.5**

PRE-TAX PROFIT (RM million)

2016	**766**
2015	**728**
2014	**701**
2013	**719**
2012	**638**



NET DIVIDEND PER SHARE (sen)

2016	**270.0**
2015	**260.0**
2014	**235.0**
2013	**235.0**
2012	**210.0**

DIRECTORS' REPORT

for the year ended 31 December 2016

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 2016.

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	Company
	RM'000	**RM'000**
Profit for the year attributable to owners of the Company	637,127	632,384

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 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 on 2 June 2016;

ii) A first interim dividend of 70 sen per ordinary share, totalling RM164,150,000 in respect of the financial year ended 31 December 2016 on 29 September 2016; and

iii) A second interim dividend of 70 sen per ordinary share, totalling RM164,150,000 in respect of the financial year ended 31 December 2016 on 2 December 2016.

The Directors recommended a final dividend of 130 sen per ordinary share, totalling RM304,850,000 in respect of the financial year ended 31 December 2016.

DIRECTORS OF THE COMPANY

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

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

Directors' Report
for the year ended 31 December 2016

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 1.1.2016	Acquired	Sold	At 31.12.2016
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 1.1.2016	Acquired	Sold	At 31.12.2016
Interests in Nestlé S.A., the holding company				
Dato' Frits van Dijk	218,200	-	-	218,200
Mr Alois Hofbauer	6,380	2,350	-	8,730
Mr Martin Peter Kruegel	1,850	640	(109)	2,381

None of the other Directors holding office at 31 December 2016 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.

Directors' Report
for the year ended 31 December 2016

OTHER STATUTORY INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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 2016 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.

Directors' Report
for the year ended 31 December 2016

AUDITORS

The auditors, KPMG PLT (converted from a conventional partnership, KPMG, on 27 December 2016), 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
Chief Executive Officer

MARTIN PETER KRUEGEL
Chief Financial Officer

Petaling Jaya, Malaysia
28 February 2017

STATEMENTS OF FINANCIAL POSITION
as at 31 December 2016

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
ASSETS					
Property, plant and equipment	3	**1,353,050**	1,369,874	**-**	-
Intangible assets	4	**62,400**	62,814	**-**	-
Investments in subsidiaries	5	**-**	-	**188,022**	188,022
Investment in an associate	6	**4,224**	4,114	**3,000**	3,000
Deferred tax assets	7	**20,155**	11,068	**-**	-
Trade and other receivables	8	**24,745**	25,048	**-**	-
Total non-current assets		**1,464,574**	1,472,918	**191,022**	191,022
Trade and other receivables	8	**544,307**	581,918	**382,305**	383,615
Inventories	9	**455,337**	414,262	**-**	-
Current tax assets		**6,396**	5,331	**433**	62
Cash and cash equivalents	10	**23,996**	13,901	**-**	-
Total current assets		**1,030,036**	1,015,412	**382,738**	383,677
Total assets		**2,494,610**	2,488,330	**573,760**	574,699
EQUITY					
Share capital		**234,500**	234,500	**234,500**	234,500
Reserves		**43,896**	108,976	**33,000**	33,000
Retained earnings		**368,825**	365,120	**304,901**	305,667
Total equity attributable to owners of the Company	11	**647,221**	708,596	**572,401**	573,167
LIABILITIES					
Loans and borrowings	12	**93,146**	96,451	**-**	-
Employee benefits	13	**86,140**	81,117	**-**	-
Deferred tax liabilities	7	**91,260**	77,539	**-**	-
Total non-current liabilities		**270,546**	255,107	**-**	-
Loans and borrowings	12	**183,961**	253,034	**-**	-
Trade and other payables	14	**1,392,780**	1,231,605	**1,359**	1,532
Current tax liabilities		**102**	39,988	**-**	-
Total current liabilities		**1,576,843**	1,524,627	**1,359**	1,532
Total liabilities		**1,847,389**	1,779,734	**1,359**	1,532
Total equity and liabilities		**2,494,610**	2,488,330	**573,760**	574,699

The notes on pages 61 to 108 are an integral part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2016

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Revenue		**5,063,506**	4,837,957	**633,450**	609,499
Cost of sales		**(3,066,051)**	(2,972,500)	**-**	-
Gross profit		**1,997,455**	1,865,457	**633,450**	609,499
Other income		**3,623**	1,476	**-**	-
Selling and distribution expenses		**(1,025,937)**	(927,626)	**-**	-
Administrative expenses		**(164,034)**	(143,704)	**(3,084)**	(1,894)
Other expenses		**(12,327)**	(35,426)	**-**	-
Results from operating activities	15	**798,780**	760,177	**630,366**	607,605
Finance income		**1,140**	1,127	**2,511**	3,107
Finance costs		**(33,836)**	(34,376)	**-**	-
Net finance (costs)/income		**(32,696)**	(33,249)	**2,511**	3,107
Share of profit of an equity accounted associate, net of tax		**410**	783	**-**	-
Profit before tax		**766,494**	727,711	**632,877**	610,712
Income tax expense	17	**(129,367)**	(136,978)	**(493)**	(954)
Profit for the year		**637,127**	590,733	**632,384**	609,758
Other comprehensive (expense)/income, net of tax					
Item that is or may be reclassified subsequently to profit or loss					
Cash flow hedge		**(65,080)**	76,308	**-**	-
Item that will not be reclassified subsequently to profit or loss					
Remeasurement of defined benefit liability		**(272)**	(20,357)	**-**	-
Other comprehensive (expense)/income for the year, net of tax	18	**(65,352)**	55,951	**-**	-
Total comprehensive income for the year		**571,775**	646,684	**632,384**	609,758
Basic and diluted earnings per ordinary share (sen)	19	**272**	252		

The notes on pages 61 to 108 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

		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 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	18	-	-	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 2015/1 January 2016		**234,500**	**33,000**	**75,976**	**365,120**	**708,596**
Cash flow hedge		**-**	**-**	**(65,080)**	**-**	**(65,080)**
Remeasurement of defined benefit liability		**-**	**-**	**-**	**(272)**	**(272)**
Other comprehensive expense for the year	18	**-**	**-**	**(65,080)**	**(272)**	**(65,352)**
Profit for the year		**-**	**-**	**-**	**637,127**	**637,127**
Total comprehensive (expense)/income for the year		**-**	**-**	**(65,080)**	**636,855**	**571,775**
Dividends to owners of the Company	20	**-**	**-**	**-**	**(633,150)**	**(633,150)**
Total transactions with owners of the Company		**-**	**-**	**-**	**(633,150)**	**(633,150)**
At 31 December 2016		**234,500**	**33,000**	**10,896**	**368,825**	**647,221**

The notes on pages 61 to 108 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

		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 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 2015/1 January 2016		**234,500**	**33,000**	**305,667**	**573,167**
Profit and total comprehensive income for the year		**-**	**-**	**632,384**	**632,384**
Dividends to owners of the Company	20	**-**	**-**	**(633,150)**	**(633,150)**
Total transactions with owners of the Company		**-**	**-**	**(633,150)**	**(633,150)**
At 31 December 2016		**234,500**	**33,000**	**304,901**	**572,401**

The notes on pages 61 to 108 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2016

		Group		Company	
	Note	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Cash flows from operating activities					
Profit before tax		**766,494**	727,711	**632,877**	610,712
Adjustments for:					
Amortisation of intangible assets	4	**414**	275	**-**	-
Depreciation on property, plant and equipment	3	**132,779**	125,570	**-**	-
Dividend income		**-**	-	**(633,450)**	(609,499)
Expenses related to defined benefit plans	13	**4,665**	8,932	**-**	-
Finance costs		**33,836**	34,376	**-**	-
Finance income		**(1,140)**	(1,127)	**(2,511)**	(3,107)
(Gain)/Loss on disposal of property, plant and equipment	15	**(580)**	429	**-**	-
Impairment on property, plant and equipment	3	**4,847**	-	**-**	-
Property, plant and equipment written off	15	**220**	850	**-**	-
Share-based payments	15	**5,248**	6,685	**-**	-
Share of profit of an equity accounted associate, net of tax		**(410)**	(783)	**-**	-
Operating profit/(loss) before changes in working capital		**946,373**	902,918	**(3,084)**	(1,894)
Change in inventories		**(41,075)**	(43,971)	**-**	-
Change in trade and other payables		**185,189**	24,482	**(173)**	(170)
Change in trade and other receivables		**(22,655)**	26,165	**1,310**	(567)
Cash generated from/(used in) operations		**1,067,832**	909,594	**(1,947)**	(2,631)
Dividends received from subsidiaries		**-**	-	**633,150**	715,225
Employee benefits paid	13	**-**	(17,087)	**-**	-
Income tax paid		**(145,046)**	(141,598)	**(864)**	(776)
Net cash from operating activities		**922,786**	750,909	**630,339**	711,818

Statements of cash flows

for the year ended 31 December 2016

		Group		Company	
		2016	2015	2016	2015
	Note	RM'000	RM'000	RM'000	RM'000
Cash flows from investing activities					
Acquisition of property, plant and equipment	(ii)	**(123,136)**	(191,184)	**-**	-
Acquisition of intangible assets		**-**	(2,065)	**-**	-
Dividends received from associate		**300**	300	**300**	300
Finance income received		**1,140**	1,127	**2,511**	3,107
Proceeds from disposal of property, plant and equipment		**2,694**	854	**-**	-
Net cash (used in)/from investing activities		**(119,002)**	(190,968)	**2,811**	3,407
Cash flows from financing activities					
Dividends paid to owners of the Company	20	**(633,150)**	(715,225)	**(633,150)**	(715,225)
Finance costs paid		**(33,836)**	(34,376)	**-**	-
Payment of finance lease liabilities		**(3,765)**	(4,477)	**-**	-
(Repayment of)/Proceeds from borrowings		**(204,325)**	125,588	**-**	-
Net cash used in financing activities		**(875,076)**	(628,490)	**(633,150)**	(715,225)
Net decrease in cash and cash equivalents		**(71,292)**	(68,549)	**-**	-
Cash and cash equivalents at 1 January	(i)	**(84,465)**	(15,916)	**-**	-
Cash and cash equivalents at 31 December	(i)	**(155,757)**	(84,465)	**-**	-

(i) Cash and cash equivalents

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

		Group		Company	
		2016	2015	2016	2015
	Note	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	10	**23,996**	13,901	**-**	-
Bank overdraft	12	**(179,753)**	(98,366)	**-**	-
		(155,757)	(84,465)	**-**	-

(ii) Acquisition of property, plant and equipment

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM123,136,000 (2015: RM203,820,000), of which nil (2015: RM12,636,000) were acquired by means of finance leases.

The notes on pages 61 to 108 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 2016 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 2016 do not include other entities.

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

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

The financial statements were authorised for issue by the Board of Directors on 28 February 2017.

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 2017

- Amendments to MFRS 12, *Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

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

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

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

- MFRS 16, *Leases*

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

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

Notes to the Financial Statements

1. BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

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

- from the annual period beginning on 1 January 2017 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2017.
- from the annual period beginning on 1 January 2018 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018, except for amendments to MFRS 1, 4 and 140 which are not applicable to the Group and the Company.
- from the annual period beginning on 1 January 2019 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2019.

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.

(iii) MFRS 16, *Leases*

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

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

Notes to the Financial Statements

1. BASIS OF PREPARATION (CONTINUED)

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and 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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(ii) Loss of control

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

(iii) Associates

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

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

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

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

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

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

(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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currencies

Foreign currency transactions

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

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

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

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

(c) Financial instruments

(i) Initial recognition and measurement

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

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

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

(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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

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

Financial assets (continued)

(b) Loans and receivables

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

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

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

Financial liabilities

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

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

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

(iii) Hedge accounting

Cash flow hedge

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

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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (continued)

(iv) Derecognition

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

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

(iii) Depreciation

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

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

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

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

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

(e) Leased assets

(i) Finance lease

Leases in terms of which the Group 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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Intangible assets

(i) Goodwill

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

(ii) Development cost

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

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

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

(iii) Amortisation

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

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

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

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

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.

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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Employee benefits (continued)

(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.

Notes to the Financial Statements

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 segment results are reviewed regularly by the chief operating decision maker, which in this case is the Group's Executive Board, to make decisions about resources to be allocated to the segment and to assess its performance and for which discrete financial information is available.

(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.

Notes to the Financial Statements

3. PROPERTY, PLANT AND EQUIPMENT

Group Cost	Leasehold land RM'000	Buildings RM'000	Plant and machinery, tools, furniture and equipment RM'000	Motor vehicles RM'000	Information systems RM'000	Capital work-in progress RM'000	Total RM'000
At 1 January 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/ 1 January 2016	**97,517**	**580,662**	**2,052,603**	**15,726**	**93,702**	**22,181**	**2,862,391**
Additions	**-**	**18,173**	**84,411**	**2,901**	**7,791**	**9,860**	**123,136**
Disposals	**-**	**-**	**(8,426)**	**(914)**	**(1,299)**	**-**	**(10,639)**
Written off	**-**	**-**	**(4,296)**	**-**	**(4,096)**	**-**	**(8,392)**
Transfer in/(out)	**-**	**1,618**	**17,798**	**-**	**629**	**(20,045)**	**-**
At 31 December 2016	**97,517**	**600,453**	**2,142,090**	**17,713**	**96,727**	**11,996**	**2,966,496**
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

Notes to the Financial Statements

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group Depreciation and impairment loss	Leasehold land RM'000	Buildings RM'000	Plant and machinery, tools, furniture and equipment RM'000	Motor vehicles RM'000	Information systems RM'000	Capital work-in progress RM'000	Total RM'000
At 1 January 2016							
Accumulated depreciation	16,011	144,038	1,234,759	9,169	67,427	-	1,471,404
Accumulated impairment loss	-	6,284	14,682	-	147	-	21,113
	16,011	150,322	1,249,441	9,169	67,574	-	1,492,517
Depreciation for the year	1,659	17,347	103,346	1,787	8,640	-	132,779
Impairment loss	-	76	4,715	-	56	-	4,847
Disposals	-	-	(6,633)	(624)	(1,268)	-	(8,525)
Written off	-	-	(4,097)	-	(4,075)	-	(8,172)
At 31 December 2016							
Accumulated depreciation	17,670	161,385	1,327,375	10,332	70,724	-	1,587,486
Accumulated impairment loss	-	6,360	19,397	-	203	-	25,960
	17,670	167,745	1,346,772	10,332	70,927	-	1,613,446
Carrying amounts							
At 1 January 2015	81,975	279,715	604,670	6,146	23,924	297,327	1,293,757
At 31 December 2015/ 1 January 2016	81,506	430,340	803,162	6,557	26,128	22,181	1,369,874
At 31 December 2016	79,847	432,708	795,318	7,381	25,800	11,996	1,353,050

Leased plant and machinery

At 31 December 2016, the net carrying amount of leased plant and machinery of the Group was RM10,018,000 (2015: RM13,487,000).

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).

Impairment loss

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

Notes to the Financial Statements

4. INTANGIBLE ASSETS

Group	Goodwill RM'000	Development cost RM'000	Total RM'000
Cost			
At 1 January 2015	61,024	-	61,024
Addition	-	2,065	2,065
At 31 December 2015/1 January 2016	61,024	2,065	63,089
Addition	-	-	-
At 31 December 2016	61,024	2,065	63,089
Amortisation			
At 1 January 2015	-	-	-
Addition	-	275	275
At 31 December 2015/1 January 2016	-	275	275
Amortisation for the year	-	414	414
At 31 December 2016	-	689	689
Carrying amounts			
At 1 January 2015	61,024	-	61,024
At 31 December 2015/1 January 2016	61,024	1,790	62,814
At 31 December 2016	61,024	1,376	62,400

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

Impairment testing

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

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

- Cash flows were projected based on actual operating results and financial budgets approved by management covering a 3-year business plan.
- The anticipated revenue growth rate for the 3-year business plan is estimated to be 6% to 10% per annum.
- The unit will continue its operations indefinitely with earnings before interest and tax ("EBIT") terminal growth rate of 1% per annum.
- A discount rate of 7.3% (2015: 7.2%) was applied.
- The size of operations will remain with at least or not lower than the current results.

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

Notes to the Financial Statements

5. INVESTMENTS IN SUBSIDIARIES

	Company	
	2016 RM'000	**2015 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 2016 %	Effective ownership interest and voting interest 2015 %
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	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
At cost				
Unquoted shares	**3,000**	3,000	**3,000**	3,000
Share of post-acquisition reserves	**1,224**	1,114	**-**	-
	4,224	4,114	**3,000**	3,000

Notes to the Financial Statements

6. INVESTMENT IN AN ASSOCIATE (CONTINUED)

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 2016 %	2015 %
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:

Group	Assets 2016 RM'000	2015 RM'000	Liabilities 2016 RM'000	2015 RM'000	Net 2016 RM'000	2015 RM'000
Property, plant and equipment	**-**	-	**(134,400)**	(120,758)	**(134,400)**	(120,758)
Employee benefit plans	**23,815**	23,729	**-**	-	**23,815**	23,729
Provisions	**23,136**	15,597	**-**	-	**23,136**	15,597
Hedging reserve	**-**	-	**(3,440)**	(23,992)	**(3,440)**	(23,992)
Unutilised tax incentives	**19,784**	38,953	**-**	-	**19,784**	38,953
Tax assets/(liabilities)	**66,735**	78,279	**(137,840)**	(144,750)	**(71,105)**	(66,471)
Set off of tax	**(46,580)**	(67,211)	**46,580**	67,211	**-**	-
Net tax assets/(liabilities)	**20,155**	11,068	**(91,260)**	(77,539)	**(71,105)**	(66,471)

Movement in temporary differences during the year

Group	At 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/ 1.1.2016 RM'000	Recognised in profit or loss (note 17) RM'000	Recognised in other comprehensive income (note 18) RM'000	At 31.12.2016 RM'000
Property, plant and equipment	(105,458)	(15,300)	-	**(120,758)**	**(13,642)**	**-**	**(134,400)**
Employee benefit plans	17,300	-	6,429	**23,729**	**-**	**86**	**23,815**
Provisions	30,740	(15,143)	-	**15,597**	**7,539**	**-**	**23,136**
Hedging reserve	105	-	(24,097)	**(23,992)**	**-**	**20,552**	**(3,440)**
Unutilised tax incentives	17,749	21,204	-	**38,953**	**(19,169)**	**-**	**19,784**
	(39,564)	(9,239)	(17,668)	**(66,471)**	**(25,272)**	**20,638**	**(71,105)**

Notes to the Financial Statements

8. TRADE AND OTHER RECEIVABLES

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Non-current					
Loans to employees		**24,745**	25,048	**-**	-
Current					
Trade					
Trade receivables		**209,855**	185,785	**-**	-
Less: Impairment loss		**(16,211)**	(9,711)	**-**	-
		193,644	176,074	**-**	-
Amounts due from related companies	8.1	**173,646**	156,897	**-**	-
Amount due from an associate	8.1	**3,564**	9,367	**-**	-
Designated as hedging instruments					
- Commodity futures		**8,772**	5,566	**-**	-
- Forward exchange contracts		**30,450**	107,370	**-**	-
		410,076	455,274	**-**	-
Non-trade					
Amounts due from subsidiaries	8.2	**-**	-	**382,198**	383,507
Amounts due from related companies	8.1	**37,024**	24,933	**-**	-
Other receivables, deposits and prepayments	8.3	**97,207**	101,711	**107**	108
		134,231	126,644	**382,305**	383,615
		544,307	581,918	**382,305**	383,615
		569,052	606,966	**382,305**	383,615

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 RM37,024,000 (2015: RM24,582,000) which is subject to interest at 3.20% to 3.63% (2015: 3.29% to 4.08%) 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 RM77,348,000 (2015: RM79,158,000) which is subject to interest at 3.03% to 3.31% (2015: 3.45% to 4.08%) per annum.

8.3 Other receivables, deposits and prepayments

Included in other receivables, deposits and prepayments of the Group are loans to employees of RM12,999,000 (2015: RM12,798,000) which are unsecured and interest free and down payment to vendors of RM9,773,000 (2015: RM8,190,000).

Notes to the Financial Statements

9. INVENTORIES

	Group 2016 RM'000	Group 2015 RM'000
Raw and packaging materials	**174,184**	166,315
Work-in-progress	**30,131**	22,340
Finished goods	**224,358**	202,113
Spare parts	**26,664**	23,494
	455,337	414,262
Recognised in profit or loss		
- Inventories recognised as cost of sales	**2,779,209**	2,679,176

10. CASH AND CASH EQUIVALENTS

	Group 2016 RM'000	Group 2015 RM'000
Cash and bank balances	**23,996**	13,901

11. CAPITAL AND RESERVES

Share capital

	Group and Company			
	Amount 2016 RM'000	Number of shares 2016 '000	Amount 2015 RM'000	Number of shares 2015 '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.

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.

Notes to the Financial Statements

12. LOANS AND BORROWINGS

	Note	Group 2016 RM'000	Group 2015 RM'000
Non-current			
Loan from a related company – unsecured	22	**84,264**	84,264
Finance lease liabilities	12.1	**8,882**	12,187
		93,146	96,451
Current			
Finance lease liabilities	12.1	**4,208**	4,668
Bank overdraft – unsecured		**179,753**	98,366
Revolving credit – unsecured		**-**	150,000
		183,961	253,034
		277,107	349,485

12.1 Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Future minimum lease payments 2016 RM'000	Interest 2016 RM'000	Present value of minimum lease payments 2016 RM'000	Future minimum lease payments 2015 RM'000	Interest 2015 RM'000	Present value of minimum lease payments 2015 RM'000
Less than one year	**4,784**	**576**	**4,208**	5,507	839	4,668
Between one and five years	**9,680**	**798**	**8,882**	13,446	1,259	12,187
	14,464	**1,374**	**13,090**	18,953	2,098	16,855

13. EMPLOYEE BENEFITS

13.1 Retirement benefits

	Group 2016 RM'000	Group 2015 RM'000
Net defined benefit liability/Total employee benefits liabilities	**86,140**	81,117

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

Notes to the Financial Statements

13. EMPLOYEE BENEFITS (CONTINUED)

13.1 Retirement benefits (continued)

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.

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.

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 2016	186,507	(105,390)	81,117
Included in profit or loss			
Interest cost/(income)	10,262	(5,597)	4,665
	10,262	(5,597)	4,665
Included in other comprehensive income			
Remeasurement loss:			
Actuarial loss arising from			
- Experience adjustments	(1,361)	-	(1,361)
Return on plan assets, excluding interest income	-	1,719	1,719
	(1,361)	1,719	358
Other			
Benefits paid	(16,336)	16,336	-
At 31 December 2016	179,072	(92,932)	86,140

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 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

Plan assets

Plan assets comprise:

	Group 2016 RM'000	Group 2015 RM'000
Equity securities	**-**	48,982
Government bonds	**24,784**	24,794
Corporate bonds	**25,000**	25,000
Fixed deposit	**40,000**	-
Cash and cash equivalents	**45**	4,905
Others	**3,103**	1,709
	92,932	105,390

Based on the latest Assets Liability study, the strategic assets allocation is 90% in a fixed return investments and up to 10% of cash (2015: 50% equity securities, 30% fixed return investments and 20% other investments).

Notes to the Financial Statements

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	
	2016	**2015**
Discount rate	**5.75%**	5.75%
Expected return on plan assets	**5.75%**	5.75%
Future salary increase rate	**N/A***	N/A*

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 2016, the weighted-average duration of the defined benefit obligation was 9.72 years.

* The assumption of future salary increase rate will no longer be applicable as a result of the transfer of the Scheme to EPF in 2015.

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**
2016		
Discount rate (0.5% movement)	**(7,441)**	**8,030**
Future pension growth (0.5% movement)	**892**	**(892)**
Future mortality (1 year movement)	**(4,446)**	**4,362**
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

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	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Trade					
Trade payables		**985,027**	797,326	**204**	-
Amounts due to related companies	14.1	**95,088**	97,835	**-**	154
Amount due to an associate	14.1	**10,794**	25,436	**-**	-
Designated as hedging instruments					
- Commodity futures		**11,846**	10,194	**-**	-
- Forward exchange contracts		**13,613**	5,576	**-**	-
		1,116,368	936,367	**204**	154
Non-trade					
Amounts due to related companies	14.1	**61,772**	104,006	**-**	270
Other payables		**44,348**	46,470	**-**	221
Accrued expenses		**170,292**	144,762	**1,155**	887
		276,412	295,238	**1,155**	1,378
		1,392,780	1,231,605	**1,359**	1,532

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 RM61,200,000 (2015: RM103,282,000) which is subject to interest at 3.03% to 3.31% (2015: 3.51% to 4.08%) per annum.

Notes to the Financial Statements

15. RESULTS FROM OPERATING ACTIVITIES

	Note	Group 2016 RM'000	Group 2015 RM'000	Company 2016 RM'000	Company 2015 RM'000
Results from operating activities is arrived at after charging:					
Auditors' remuneration					
- Statutory audit KPMG in Malaysia		**351**	288	**79**	75
- Other services					
KPMG in Malaysia		**174**	230	**114**	108
Affiliates of KPMG in Malaysia		**24**	25	**1**	1
Amortisation of intangible assets	4	**414**	275	**-**	-
Depreciation of property, plant and equipment	3	**132,779**	125,570	**-**	-
Impairment of property, plant and equipment	3	**4,847**	-	**-**	-
Impairment loss on trade receivables (net)		**6,500**	4,355	**-**	-
Loss on disposal of property, plant and equipment		**-**	429	**-**	-
Net foreign exchange loss					
- Realised		**-**	-	**4**	-
- Unrealised		**4,439**	8,537	**-**	-
Personnel expenses (including key management personnel)					
- Contributions to Employees Provident Fund		**54,988**	46,241	**-**	-
- Expenses related to defined benefit plans	13	**4,665**	8,932	**-**	-
- Share-based payments		**5,248**	6,685	**-**	-
- Wages, salaries and others		**501,816**	479,942	**-**	-
Property, plant and equipment written off		**220**	850	**-**	-
Rental expenses on land and buildings		**59,534**	52,907	**-**	-
and after crediting:					
Dividend income from					
- Subsidiaries (unquoted)		**-**	-	**633,150**	609,199
- Associate (unquoted)		**-**	-	**300**	300
Gain on disposal of property, plant and equipment		**580**	-	**-**	-
Net foreign exchange gain					
- Realised		**47,949**	10,736	**-**	-

Notes to the Financial Statements

16. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations are as follows:

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Directors				
- Fees	**1,199**	876	**1,199**	876
- Remuneration	**5,049**	4,767	**-**	-
- Other short-term employee benefits (including estimated monetary value of benefits-in-kind)	**747**	755	**40**	40
Total short-term employee benefits	**6,995**	6,398	**1,239**	916
Post-employment benefits	**486**	489	**-**	-
Share-based payments	**1,595**	1,138	**-**	-
	9,076	8,025	**1,239**	916
Other key management personnel				
- Remuneration	**5,882**	5,035	**-**	-
- Other short-term employee benefits (including estimated monetary value of benefits-in-kind)	**710**	747	**-**	-
- Post-employment benefits	**524**	499	**-**	-
- Share-based payments	**1,458**	1,396	**-**	-
	8,574	7,677	**-**	-
	17,650	15,702	**1,239**	916

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

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

Notes to the Financial Statements

17. INCOME TAX EXPENSE

	Group		Company	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Recognised in the profit or loss				
Income tax expense	**129,367**	136,978	**493**	954
Major components of income tax expense include:				
Current tax expense				
Malaysian				
- current year	**104,393**	143,332	**228**	511
- prior year	**(298)**	(15,593)	**265**	443
Total current tax recognised in profit or loss	**104,095**	127,739	**493**	954
Deferred tax expense				
Origination and reversal of temporary differences	**71,817**	(7,822)	**-**	-
Change in tax rate	**-**	299	**-**	-
(Over)/Under provided in prior years	**(46,545)**	16,762	**-**	-
Total deferred tax recognised in profit or loss	**25,272**	9,239	**-**	-
Total income tax expense	**129,367**	136,978	**493**	954
Reconciliation of tax expense				
Profit for the year	**637,127**	590,733	**632,384**	609,758
Total income tax expense	**129,367**	136,978	**493**	954
Profit excluding tax	**766,494**	727,711	**632,877**	610,712
Income tax calculated using Malaysian tax rate of 24% (2015: 25%)	**183,959**	181,928	**151,890**	152,678
Non-deductible expenses	**4,279**	4,084	**366**	208
Tax exempt income	**-**	-	**(152,028)**	(152,375)
Tax incentives	**(15,904)**	(52,224)	**-**	-
Change in tax rate	**-**	299	**-**	-
Other items	**3,876**	1,722	**-**	-
	176,210	135,809	**228**	511
(Over)/Under provided in prior years				
- Current tax	**(298)**	(15,593)	**265**	443
- Deferred tax	**(46,545)**	16,762	**-**	-
	(46,843)	1,169	**265**	443
	129,367	136,978	**493**	954

Notes to the Financial Statements

18. OTHER COMPREHENSIVE (EXPENSE)/INCOME

Group	2016 Before tax RM'000	2016 Tax benefit RM'000	2016 Net of tax RM'000	2015 Before tax RM'000	2015 Tax (expense)/ benefit RM'000	2015 Net of tax RM'000
Item that is or may be reclassified subsequently to profit or loss						
Cash flow hedge						
- (Losses)/Gains arising during the year	**(63,577)**	**15,259**	**(48,318)**	110,077	(26,418)	83,659
- Reclassification adjustments for losses included in profit or loss	**(22,055)**	**5,293**	**(16,762)**	(9,672)	2,321	(7,351)
	(85,632)	**20,552**	**(65,080)**	100,405	(24,097)	76,308
Item that will not be reclassified subsequently to profit or loss						
Remeasurement of defined benefit liability	**(358)**	**86**	**(272)**	(26,786)	6,429	(20,357)
	(85,990)	**20,638**	**(65,352)**	73,619	(17,668)	55,951

19. EARNINGS PER ORDINARY SHARE – BASIC AND DILUTED

The calculation of earnings per ordinary share for the year ended 31 December 2016 was based on the profit attributable to ordinary shareholders of RM637.1 million (2015: RM590.7 million) and 234.5 million (2015: 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
2016			
Final 2015 ordinary	**110**	**257,950**	2 June 2016
Special 2015 ordinary	**20**	**46,900**	2 June 2016
Interim 2016 ordinary - first	**70**	**164,150**	29 September 2016
- second	**70**	**164,150**	2 December 2016
Total amount		**633,150**	
2015			
Final 2014 ordinary	175	410,375	27 May 2015
Interim 2015 ordinary - first	65	152,425	10 September 2015
- second	65	152,425	2 December 2015
Total amount		715,225	

Notes to the Financial Statements

20. DIVIDENDS (CONTINUED)

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

	Sen per share	Total amount RM'000
Final 2016 ordinary	**130**	**304,850**

21. OPERATING SEGMENTS

The Group has two operating segments – Food and beverages and Others which include Nutrition, Nestlé Professional and Nespresso (2015: Nutrition and Nestlé Professional).

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

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

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

	Food and beverages		Others		Total Company	
Group	**2016 RM'000**	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Segment revenue and results						
Revenue	**4,039,140**	3,875,100	**1,024,366**	962,857	**5,063,506**	4,837,957
Operating profit	**644,557**	627,916	**153,907**	132,873	**798,464**	760,789
Included in the measure of segment operating profit are:						
Depreciation on property, plant and equipment	**119,772**	113,520	**13,007**	12,050	**132,779**	125,570

Notes to the Financial Statements

21. OPERATING SEGMENTS (CONTINUED)

Reconciliations of reportable segment profit or loss

	Group 2016 RM'000	Group 2015 RM'000
Profit or loss		
Total profit for reportable segments	**798,464**	760,789
Finance costs	**(33,836)**	(34,376)
Finance income	**1,140**	1,127
Other unallocated income/(expenses)	**316**	(612)
Share of profit of an associate not included in reportable segments	**410**	783
Consolidated profit before tax	**766,494**	727,711

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.

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

Notes to the Financial Statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.1 Categories of financial instruments (continued)

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)	-

22.2 Net gains and losses arising from financial instruments

	Group		Company	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Net gains/(losses) on:				
Fair value through profit or loss				
- Designated upon initial recognition	**45,584**	4,471	**-**	-
Loans and receivables	**(5,360)**	(3,229)	**2,511**	3,107
Financial liabilities measured at amortised cost	**(28,067)**	(59,544)	**-**	-
	12,157	(58,302)	**2,511**	3,107

Notes to the Financial Statements

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 RM51,612,000 (2015: RM40,511,000).

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
2016			
Not past due	**168,534**	**-**	**168,534**
Past due 0 – 30 days	**12,527**	**-**	**12,527**
Past due 31 – 120 days	**14,367**	**(1,784)**	**12,583**
Past due more than 120 days	**14,427**	**(14,427)**	**-**
	209,855	**(16,211)**	**193,644**
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

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

	Group	
	2016 RM'000	**2015 RM'000**
At 1 January	**9,711**	5,356
Impairment loss recognised	**6,906**	4,801
Impairment loss reversed	**(406)**	(446)
At 31 December	**16,211**	9,711

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.

Notes to the Financial Statements

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

Notes to the Financial Statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.5 Liquidity risk (continued)

Maturity analysis (continued)

Group	Carrying amount RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000	1 – 2 years RM'000	2 – 5 years RM'000
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	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

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

22.6 Market risk

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

Notes to the Financial Statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Market risk (continued)

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:

	2016			2015		
	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	**6,307**	**-**	**-**	6,882	-	-
Trade payables	**(124,199)**	**(17,663)**	**(13,846)**	(184,864)	(5,902)	(9,234)
Intra-group receivables	**106,763**	**2,133**	**283**	120,453	-	-
Intra-group payables	**(51,378)**	**(49)**	**(210)**	(55,401)	(382)	(730)
Commodity futures	**5,909**	**(8,982)**	**-**	(4,383)	(1,883)	-
Exposure in the statement of financial position	**(56,598)**	**(24,561)**	**(13,773)**	(117,313)	(8,167)	(9,964)
Net contracted foreign exchange contracts	**(177,752)**	**(26,212)**	**(12,120)**	(589,689)	(10,526)	(9,666)
Net exposure	**(234,350)**	**(50,773)**	**(25,893)**	(707,002)	(18,693)	(19,630)

Notes to the Financial Statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Market risk (continued)

22.6.1 Currency risk (continued)

Currency risk sensitivity analysis

A 10% (2015: 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	
	2016 RM'000	**2015 RM'000**
USD	**23,435**	70,700
GBP	**5,077**	1,869
EUR	**2,589**	1,963

A 10% (2015: 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.

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	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Fixed rate instrument				
Financial liabilities	**(13,090)**	(16,855)	**-**	-
Floating rate instruments				
Financial assets	**37,024**	24,582	**77,348**	79,158
Financial liabilities	**(325,217)**	(435,912)	**-**	-
	(288,193)	(411,330)	**77,348**	79,158

Notes to the Financial Statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.6 Market risk (continued)

22.6.2 Interest rate risk (continued)

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 RM2,882,000 (2015: RM4,113,000) and RM773,000 (2015: RM792,000) 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.

22.7 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 RM747,299,000 (2015: RM1,304,675,000) and RM92,090,000 (2015: RM95,507,000) respectively. The forward exchange contracts and commodity futures are entered into within a year and settled according to the individual contracts settlement date.

Notes to the Financial Statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.7 Hedging activities (continued)

Cash flow hedge (continued)

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
2016			
Forward exchange contracts	**(16,837)**	**(16,837)**	**(16,837)**
Commodity futures	**3,074**	**3,074**	**3,074**
2015			
Forward exchange contracts	101,794	101,794	101,794
Commodity futures	(4,628)	(4,628)	(4,628)

During the financial year, a loss of RM48,318,000 (2015: gain of RM83,659,000) was recognised in the other comprehensive income and RM16,762,000 (2015: RM7,351,000) was reclassified from equity to profit or loss. Ineffectiveness gain amounting to RM23,530,000 (2015: loss of RM5,202,000) 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 2016	**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**
Financial assets										
Commodity futures	8,772	-	-	8,772	-	-	-	-	8,772	8,772
Forward exchange contracts	-	30,450	-	30,450	-	-	-	-	30,450	30,450
Loans to employees	-	-	-	-	-	-	37,744	37,744	37,744	37,744
	8,772	30,450	-	39,222	-	-	37,744	37,744	76,966	76,966
Financial liabilities										
Commodity futures	(11,846)	-	-	(11,846)	-	-	-	-	(11,846)	(11,846)
Forward exchange contracts	-	(13,613)	-	(13,613)	-	-	-	-	(13,613)	(13,613)
Loan from a related company	-	-	-	-	-	-	(84,264)	(84,264)	(84,264)	(84,264)
Finance lease liabilities	-	-	-	-	-	-	(12,335)	(12,335)	(12,335)	(13,090)
	(11,846)	(13,613)	-	(25,459)	-	-	(96,599)	(96,599)	(122,058)	(122,813)

Notes to the Financial Statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

22.8 Fair value information (continued)

Group 2015	Fair value of financial instruments carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Fair value of financial instruments not carried at fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
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)

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 (2015: 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.

Notes to the Financial Statements

22. FINANCIAL INSTRUMENTS (CONTINUED)

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.

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
2016				
Derivative financial assets				
Forward exchange contracts designated as hedging instruments		**30,450**	**(13,613)**	**16,837**
Derivative financial liabilities				
Forward exchange contracts designated as hedging instruments		**(13,613)**	**13,613**	**-**
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)

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.

Notes to the Financial Statements

24. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2016 RM'000	**2015 RM'000**
Less than one year	**24,381**	24,050
Between one and five years	**16,202**	40,407
	40,583	64,457

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

25. CAPITAL AND OTHER COMMITMENTS

	Group	
	2016 RM'000	**2015 RM'000**
Capital expenditure commitments		
Plant and equipment		
Authorised but not contracted for	**236,932**	133,974
Contracted but not provided for within one year	**22,147**	18,582
	259,079	152,556

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.

		2016		2015	
	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
Group					
Related companies					
Sales of goods and services	a	**(863,336)**	**146,215**	(780,276)	124,044
Purchases of goods and services	a	**506,897**	**(61,429)**	544,951	(63,692)
Royalties		**248,424**	**(16,639)**	235,842	(18,482)
IT shared services		**37,668**	**-**	32,692	-
Finance costs		**5,645**	**(572)**	6,979	(638)
Company					
Subsidiary					
Finance income	b	**(2,511)**	**-**	(3,107)	-

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 3.03% to 3.31% (2015: 3.45% to 4.08%) per annum and are repayable on demand.

Notes to the Financial Statements

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	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
Total retained earnings of the Company and its subsidiaries:				
- Realised	**478,757**	501,065	**304,901**	305,667
- Unrealised	**(151,235)**	(194,921)	**-**	-
	327,522	306,144	**304,901**	305,667
Total retained earnings of an associate:				
- Realised	**1,224**	1,114	**-**	-
Add: Consolidation adjustments	**40,079**	57,862	**-**	-
Total retained earnings	**368,825**	365,120	**304,901**	305,667

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 the MIA 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 55 to 107 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 2016 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 108 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 MIA 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
Chief Executive Officer

Martin Peter Kruegel
Chief Financial Officer

Petaling Jaya, Malaysia
28 February 2017

STATUTORY DECLARATION

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

I, **Martin Peter Kruegel**, the Director primarily responsible for the financial management of Nestlé (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 55 to 108 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named, Martin Peter Kruegel, Passport No. C47XCYYNM in Petaling Jaya on 28 February 2017.

Martin Peter Kruegel
Chief Financial Officer

Before me:

Guna Papoo
Commissioner of Oaths (No. B338)

Petaling Jaya, Malaysia
28 February 2017

INDEPENDENT AUDITORS' REPORT

to the members of Nestlé (Malaysia) Berhad

REPORT ON THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Nestlé (Malaysia) Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 55 to 107.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

BASIS FOR OPINION

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

INDEPENDENCE AND OTHER ETHICAL RESPONSIBILITIES

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

KEY AUDIT MATTERS

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

<u>Revenue recognition</u>
(Refer to Note 2(l) - Significant accounting policy: Revenue and Note 21 - Operating Segments)

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

Revenue recognition was a key audit matter due to:

- Risk that revenue might be overstated due to intentional misstatement resulting from the pressure of management to achieve the budgeted results. The Group set revenue growth as one of their key performance measures which could create an incentive for revenue to be recognised before the risks and rewards have been transferred.

- Risk of inappropriate classification between trade spend (a component of revenue) and marketing expenses (a component of operating profit) provided an opportunity for management to meet revenue targets.

Independent Auditors' Report
to the members of Nestlé (Malaysia) Berhad

We performed the following audit procedures around revenue recognition:

- Due to the high reliance of revenue recognition on the Group's IT system, we evaluated the effectiveness of the general IT control environment and tested the operating effectiveness of relevant IT application controls. We tested the completeness and accuracy of the underlying customer master data, by assessing mandatory fields and critical segregation of duties;
- We developed an expectation of the current year quartely revenue taking into account historical information and external indices. We then compared this expectation with actual results;
- We assessed sales transactions taking place before and after the reporting date as well as credit notes issued subsequent to the reporting date to ascertain whether the revenue was recognised in the correct period;
- We tested manual journal entries relating to revenue by checking to appropriate authorisation level and appropriate supporting documents;
- We tested the operating effectiveness of controls over the calculation and monitoring of trade spend;
- We performed predictive analysis on Total Trade Spend ("TTS") and Product Fixed Marketing Expenses ("PFME") ratio over revenue using historical trend as benchmark and compared the reported results with our expectation; and
- We assessed if total trade spend committed were appropriately accrued for in the current period by checking to claims from customers subsequent to reporting date.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITORS' REPORT THEREON

The Directors of the Company are responsible for the other information. The other information comprises the Directors' report (but does not include the financial statements of the Group and of the Company and our auditors' report thereon), which we obtained prior to the date of this auditors' report, and remaining parts of the annual report, which are expected to be made available to us after that date.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 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 of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Report
to the members of Nestlé (Malaysia) Berhad

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditors' Report

to the members of Nestlé (Malaysia) Berhad

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 of which we have acted as auditors 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) The 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

The supplementary information set out in note 27 on page 108 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of 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 PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

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

Petaling Jaya, Malaysia

28 February 2017

SHAREHOLDINGS STATISTICS

as at 28 February 2017

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	:	6,553
Voting rights	:	One vote per ordinary share

SUBSTANTIAL SHAREHOLDERS

Name	Number of shares held	%
Nestlé S.A.	170,276,563	72.612
Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	18,124,700	7.729
Amanahraya Trustees Berhad Amanah Saham Bumiputera	5,115,000	2.181

30 LARGEST SHAREHOLDERS

Name		Number of shares held	%
1	Nestlé S.A.	170,276,563	72.612
2	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	18,124,700	7.729
3	Amanahraya Trustees Berhad Amanah Saham Bumiputera	5,115,000	2.181
4	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (Par 1)	3,505,810	1.495
5	Kumpulan Wang Persaraan (Diperbadankan)	2,008,800	0.856
6	Valuecap Sdn Bhd	1,767,900	0.753
7	Pertubuhan Keselamatan Sosial	1,329,200	0.566
8	Amanahraya Trustees Berhad Public Islamic Dividend Fund	1,220,400	0.520
9	Amanahraya Trustees Berhad Amanah Saham Wawasan 2020	866,300	0.369
10	Amanahraya Trustees Berhad Public Islamic Select Enterprises Fund	781,200	0.333

Shareholdings Statistics
as at 28 February 2017

30 LARGEST SHAREHOLDERS (CONTINUED)

	Name	Number of shares held	%
11	Amanahraya Trustees Berhad Amanah Saham Bumiputera 2	771,400	0.328
12	Amanahraya Trustees Berhad Public Ittikal Sequel Fund	764,700	0.326
13	Amanahraya Trustees Berhad Public Islamic Equity Fund	707,700	0.301
14	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (Nomura)	680,000	0.289
15	Kwang Teow Sang Sdn Bhd	560,700	0.239
16	Maybank Nominees (Tempatan) Sdn Bhd Maybank Trustees Berhad for Public Regular Savings Fund (N14011940100)	480,500	0.204
17	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (Aberdeen)	474,100	0.202
18	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (Aberdeen)	420,000	0.179
19	Amanahraya Trustees Berhad As 1Malaysia	397,200	0.169
20	Cartaban Nominees (Asing) Sdn Bhd RBC Investor Services Bank S.A. For Vontobel Fund - Far Eastequity	375,800	0.160
21	Batu Pahat Seng Huat Sdn Berhad	363,985	0.155
22	Woo Khai Yoon	360,000	0.153
23	Amanahraya Trustees Berhad Public Islamic Optimal Growth Fund	358,500	0.152
24	Amanahraya Trustees Berhad Public Dividend Select Fund	343,800	0.146
25	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (Par 2)	311,400	0.132
26	Citigroup Nominees (Tempatan) Sdn Bhd Universal Trustee (Malaysia) Berhad For Cimb Islamic Dali Equity Fund	298,500	0.127
27	Citigroup Nominees (Asing) Sdn Bhd UBS Ag	280,000	0.119
28	Amanahraya Trustees Berhad Amanah Saham Didik	278,000	0.118
29	Kuok Foundation Berhad	274,200	0.116
30	Cartaban Nominees (Tempatan) Sdn Bhd Pamb for Prulink Equity Fund	273,900	0.116

Shareholdings Statistics
as at 28 February 2017

Size of Holdings	No. of Shareholders/ Depositors	% of Shareholders/ Depositors	No. of Shares Held	Capital
1 - 99	713	10.880	4,585	0.002
100 - 1,000	4,288	65.436	2,079,137	0.887
1,001 - 10,000	1,175	17.931	4,021,011	1.715
10,001 - 100,000	317	4.837	10,194,029	4.347
100,001 - less than 5% of issued shares	58	0.885	29,799,975	12.708
5% and above of issued shares	2	0.031	188,401,263	80.341
Total	6,553	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	0.00340	-	-
Nestle S.A., the holding company				
Dato' Frits van Dijk	218,200	0.00701	-	-
Mr Alois Hofbauer	8,730	0.00028	-	-
Mr Martin Peter Kruegel	2,381	0.00008	-	-

LIST OF PROPERTIES HELD
at 31 December 2016

LOCATION	TENURE	AGE*	EXPIRY DATE	SIZE (m²)	DESCRIPTION	NET BOOK VALUE RM'000
1. No. 25 Jalan Tandang 46050 Petaling Jaya Selangor	Leasehold	56	Q.T. (R) 2619 25.09.2066 Q.T. (R) 5281 07.10.2069	50,342	Factory	15,355
2. Lot No. 3, 5, 75 & 76 Jalan Playar 15/1 40700 Shah Alam Selangor	Leasehold	7-46**	10.06.2070	113,396	Factory	42,250
3. Lot No. 6 Pesiaran Raja Muda 40700 Shah Alam Selangor	Leasehold	47	29.01.2070	36,835	Factory & warehouse	11,202
4. Lot Nos. 687 – 696, 3863 – 3866, 4671, 4673, 5435 & 5807 Mukim Chembong Daerah Rembau Negeri Sembilan	Leasehold	20-25	15.11.2048 27.06.2049 13.08.2055 20.11.2095	136,199	Factory	2,819
5. Lot Nos. 3857 – 3862 & 4672 Jalan Perusahaan 4 Kawasan Perindustrian Chembong, Chembong Rembau, Negeri Sembilan	Leasehold	20-25	27.06.2049 20.11.2095	33,870	Factory	1,332
6. Lot No. 844, Block 7 Muara Tebas Land District Sejingkat Industrial Estate Kuching, Sarawak	Leasehold	25	19.10.2053	25,460	Factory	310
7. Lot 915, Block 7 Muara Tebas Land District Demak Laut Industrial Park Kuching, Sarawak	Leasehold	22	12.10.2054	12,740	Factory	595
8. Plot 46, Bemban Industrial Park Batu Gajah, Perak	Leasehold	19	07.11.2058	157,500	Vacant land	5,687
9. Lot 3846, Pekan Chembong Daerah Rembau Negeri Sembilan	Leasehold	3	26.06.2049	4,249	Vacant land	296

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

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