

## **CORPORATE GOVERNANCE REPORT**

**STOCK CODE** : 4707  
**COMPANY NAME** : NESTLÉ (MALAYSIA) BERHAD  
**FINANCIAL YEAR** : December 31, 2017

### **OUTLINE:**

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

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

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

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

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

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

### Intended Outcome

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

### Practice 1.1

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

<b>Application</b>	: Applied
<b>Explanation on application of the practice</b>	<p>The Board of Directors (the Board) in discharging its responsibilities in overseeing the overall management of Nestlé (Malaysia) Berhad (the Company) has during the year under review, undertaken the following:</p> <p><b>Together with the management, promote good corporate governance culture within the Company which reinforces ethical, prudent and professional behaviour;</b></p> <p>The Board continues to promote good corporate governance culture, whereby the Company has in place policies and procedures which promotes a culture of good governance and ethical, prudent and professional behaviour. Such policies include the Nestlé Corporate Business Principles, Nestlé Code of Business Conduct, Nestlé Management and Leadership Principles and Nestlé Malaysia Anti-Corruption, Gifts and Entertainment Guidelines, which outlines the conduct and responsibilities of the Directors and all employees.</p> <p><b>Review, challenge and decide on management's proposals for the Company and monitor its implementation by management;</b></p> <p>Part of the responsibilities assumed by the Board includes approving proposals by the management and monitoring the implementation of the strategic plan by the management. The Board will deliberate on all proposals presented and recommended, including those proposed by its Board Committees.</p> <p><b>Ensure that the Company's strategic plan supports the long-term value creation and includes strategies on the economic, environmental and social considerations underpinning sustainability;</b></p> <p>The Board reviews and adopts the Company's strategic plan which includes addressing the Company's business strategies on promoting sustainability and setting of goals. The Company's sustainability goals and journey can be found in the Company's Nestlé in Society 2017 Report.</p>

	<p><b>Supervise and assess management performance to determine whether the business is being properly managed;</b></p> <p>The Board not only oversees the conduct of the Company's business and operations, it also evaluates and ensures that its businesses are being properly managed.</p> <p><b>Ensure there is a sound framework for internal controls and risk management;</b></p> <p>The Board and the management are responsible and accountable for the establishment of the Company's system of risk management and internal control. The Audit Committee supports the Board in monitoring the Company's risk exposures, the design and operating effectiveness of the underlying risk management and internal controls systems. The Audit Committee assists the Board, to oversee the following processes:</p> <ul style="list-style-type: none"> <li>(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;</li> <li>(ii) periodic reviews of the business processes and operations reported by the Nestlé Internal Audit Department, including action plans to address the identified control weaknesses and implementation of recommendations; and</li> <li>(iii) reports by the external auditor of any control issues identified in the course of their audit related and non-audit related work, and discussion with the external auditor on the scope of their respective review and findings.</li> </ul> <p>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.</p> <p><b>Understand the principal risks of the Company's business and recognise that business decisions involve the taking of appropriate risks;</b></p> <p>The Board acknowledges that the link between risk, internal controls, strategy and value are critical. This link is formalised through an alignment of the Company's strategy, risk and internal processes, which supports fulfilment of the Company's strategic priorities, thereby delivering value for its Stakeholders.</p> <p>Set the risks appetite within which the Board expects management to operate and ensure that there is an appropriate risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks. The Board and the management fully support the contents of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers. In support of the Company Internal Audit, known as the "Nestlé Internal Audit" and prevailing practices of related companies,</p>
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	<p>the Board and management have put in place risk management guidelines, control measures and processes throughout the Company.</p> <p>Risk management is firmly embedded in the Company's key processes through its risk management framework. Risk management practices are inculcated and entrenched in the activities of the Company, which requires, amongst others, establishing risk tolerance thresholds to actively identify, assess and monitor key business risks faced by the Company.</p> <p>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.</p> <p><b>Ensure the Company has in place procedures to enable effective communication with stakeholders;</b></p> <p>The Company has a sound Investor Relations programme which reaches out to the investing community and other stakeholders through continuous engagement and through the maintenance of a comprehensive, informative website which is investor focused and feedback driven.</p> <p><b>Ensure that Senior Management (the Nestlé Leadership Team) has the necessary skills and experience and there are measures in place to provide the orderly succession of board and Senior Management; and</b></p> <p>Through the Nomination and Compensation Committee (NCC), the Board implements and ensures that effective and orderly succession planning is in place for the Directors and Senior Management of the Company and its subsidiary companies ("the Group"). The NCC reviews the Board and the Group's succession plans and bases their review of compensation and hiring on competitive industry practices and through meritocracy.</p> <p><b>Ensure the integrity of the Company's financial and non-financial reporting;</b></p> <p>The Board is assisted by the Audit Committee in overseeing the Company's financial reporting processes and the quality of the financial reporting. The Audit Committee reviews the quarterly financial reports which are presented by the Chief Financial Officer (CFO) in the presence of the external auditor and the Head of Nestlé Internal Audit prior to recommending them for approval by the Board and the release to Bursa Malaysia Securities Berhad (Bursa). The Board has also provided assurance that the financial statements prepared for each financial year give a true and fair view of the state of affairs of the Company as at the end of the financial year.</p>
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<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

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

### Practice 1.2

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

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

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

**Intended Outcome**

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

**Practice 1.3**

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

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



### Intended Outcome

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

### Practice 1.4

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Company Secretary is a person qualified to act as a company secretary under Section 235(2) of the Companies Act 2016. She holds a Bachelor of Laws (Hons) from the University of Nottingham, United Kingdom and was admitted as a Barrister-at-Law of the Honourable Society of Lincoln's Inn, London. She has also been called to the Malaysian Bar.</p> <p>Her roles and responsibilities include:</p> <ul style="list-style-type: none"><li>• Preparing the agenda with the Chairman of the Board and CEO and notifying all Directors of the Board and Board Committee meetings.</li><li>• Attending all Board and Board Committee meetings, the AGM and ensuring 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 for their necessary action, and to follow-up on proposals or matters tabled at the Board or Board Committee meetings.</li><li>• Providing full access and services to the Board and Board Committees.</li><li>• Assisting the Board and the Chairman in interpreting the legal and regulatory requirements, Malaysian Code on Corporate Governance (MCCG), Main Market Listing Requirements of Bursa (Listing Requirements) and Companies Act 2016, and providing updates on relevant laws, regulatory and corporate governance practices and developments.</li><li>• Advising the Directors and management 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.</li><li>• Advising the Board on its obligatory requirements to disclose material information to the shareholders and financial markets on a timely basis.</li></ul>

	<ul style="list-style-type: none"> <li>• Monitoring compliance with the principles and recommendations of MCCG, Listing Requirements, the Companies Act 2016 and informing the Board of any departures/breaches and possible violations of legal and regulatory acts, if any.</li> <li>• Ensuring the appointment of new Directors, re-election, retention and resignation of Directors are in accordance with the relevant legislations, regulations and best corporate governance practices.</li> <li>• Ensuring the execution of all relevant assessments for Directors, the Board and Board Committees, such as independence and Board Effectiveness Evaluation.</li> <li>• Ensuring availability of information as required by Directors for the proper discharge of their duties.</li> <li>• Identifying and arranging 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.</li> <li>• Developing 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.</li> </ul> <p>The Company Secretary has undertaken continuous professional development by attending the following trainings relevant to her role as a Company Secretary :</p> <ul style="list-style-type: none"> <li>• Workshop on Companies Act 2016</li> <li>• ACI Breakfast Roundtable</li> <li>• SSM National Conference 2017 : “Implementing the Companies Act 2016”</li> <li>• Effective Board Performance Evaluation for Company Secretaries (Bursa)</li> <li>• Managing the Risk of Fraud</li> <li>• “Leading the Nestlé Way” Leadership Course</li> </ul> <p>The support of the Company Secretary was evaluated by the Board in 2017 and found to be effective and adequate.</p>
<b>Explanation for departure</b> :	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>	
<b>Measure</b> :	
<b>Timeframe</b> :	

**Intended Outcome**

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

**Practice 1.5**

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>Aside from Board meetings, the Board is informed or updated, on important issues and major development of matters including those discussed in the Board Meetings, by the management and the Company Secretary. Briefings may be arranged to discuss important issues.</p> <p>Prior to each Board and Board Committee meeting, a notice and the structured agenda, as approved by the respective Chairman of the Board and the Board Committees, are sent to the relevant Directors 14 days prior to the meetings.</p> <p>Board and Board Committee papers, including presentations and reading materials are usually circulated to the Directors five business days prior to the Board or Board Committee meetings. Early circulation is done to ensure clear and adequate understanding of the subject matter amongst the Directors. It also ensures that the Directors are well-prepared to deal with the subject matter during the said meetings and enables the Board and Board Committee to make decisions. In the event of any urgent matters or when additional papers are circulated less than five business days, detailed explanation of the subject matter will be provided by the management to the Board</p> <p>The deliberations and decisions of the Board and Board Committees are properly documented in the minutes and the draft minutes are circulated to all the Directors/members of the Board Committees. The Company Secretary would also notify and follow-up with the management of any appropriate actions to be taken or further updates to be provided to the Board. Items identified as matters arising would be further discussed at the next Board/ Board Committee meetings.</p> <p>As part of the Board's initiative to promote environmental sustainability and efficiencies as much as possible, the Board has adopted paperless meetings through the usage of electronic devices.</p>
<b>Explanation for departure</b>	:	

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

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

**Intended Outcome**

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

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

**Practice 2.1**

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

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board has 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 composition of the Board; the establishment of the Board Committees; the roles and responsibilities of the Board; schedule of matters reserved for the Board; separation of functions between the Chairman of the Board and the CEO; details on Board meetings; access to information, advice and training; maintaining integrity and compliance with ethical standards; and Board tenure and remuneration.</p> <p>The Board Charter is periodically reviewed. It was last reviewed and approved by the Board on 20 February 2018.</p> <p><i>The Board Charter is available on the Company's corporate website at <a href="https://www.nestle.com.my/aboutus/investors">https://www.nestle.com.my/aboutus/investors</a></i></p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

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

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

### Practice 3.1

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

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

<b>Application</b>	: Applied
<b>Explanation on application of the practice</b>	<p><b>CODE OF CONDUCT</b></p> <p>In discharging its responsibilities, the Board is guided by the code of conduct and principles contained in the following internal policies/guidelines:</p> <p><b>Nestlé Corporate Business Principles</b></p> <p>The Board and all employees are guided by the Nestlé Corporate Business Principles (NCBP) that cover key issues that underpin compliance, sustainability and corporate social responsibilities known as Creating Shared Value (CSV), catered to fit the unique characteristics of the Company.</p> <p>The NCBP also focuses on work place practices and ethics, employee relations and employee human rights. The ten principles contained in the NCBP set out a common approach to the development of policies and procedures taking into account labour laws and practice; political, economic and cultural aspects. These principles can be summarised as follows:</p> <ul style="list-style-type: none"><li>• We delight consumers (Principles 1, 2, 3)</li><li>• We care about people (Principles 4, 5, 6)</li><li>• We develop responsible partnerships (Principles 7, 8)</li><li>• We promote sustainability (Principles 9, 10)</li></ul> <p><b>Nestlé Code of Business Conduct</b></p> <p>The Nestlé Code of Business Conduct (NCBC) outlines the conduct and responsibilities of the Board and all employees. The Directors have a duty to declare immediately to the Board should they be interested in any transaction to be entered into directly or indirectly with the Company or any of its subsidiaries.</p> <p>Examples of provisions in the NCBC are compliance with laws, rules and regulations, avoiding situations where there are conflicts of interest, timely declaration of interests in competing businesses, prohibition on the use of inside information, corporate opportunities, insider trading, whistleblowing and prohibition on corrupt activities.</p>

	<p>The NCBC is premised on three basic principles, which are:-</p> <ul style="list-style-type: none"> <li>(a) Avoidance of any conduct that could damage or create risk to the Company or its reputation;</li> <li>(b) Legal compliance and honesty, to place the Company's interests ahead of personal or other interests; and</li> <li>(c) Guidance on how the Board and employees should behave.</li> </ul> <p><b>Nestlé Malaysia Anti-Corruption, Gifts &amp; Entertainment Guidelines</b></p> <p>The Group launched its new Nestlé Malaysia Anti-Corruption, Gifts &amp; Entertainment 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 Company carried out extensive engagements, training and communication activities throughout the Company and also for its third party suppliers and customers.</p> <p><i>The Nestlé Corporate Business Principles, Nestlé Code of Business Conduct and the Nestlé Malaysia Anti-Corruption, Gifts &amp; Entertainment Guidelines are available on the Company's corporate website at <a href="https://www.nestle.com.my/aboutus/">https://www.nestle.com.my/aboutus/</a></i></p>	
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

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

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

### Practice 3.2

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p><b>Whistleblowing Policy</b></p> <p>One of the key provisions in the NCBC is reporting on illegal or unacceptable behaviour and/or non-compliant conduct. The Board acknowledges that misconduct such as violation of laws, rules, regulations, production fault, fraud, health and safety violations or corruption are usually known first by the people who work in or with the 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 any problems becomes a crisis.</p> <p>A whistleblowing system strengthens and supports good management and at the same time demonstrates accountability, provides good risk management and sound corporate governance practices. The Company believes that having a whistleblowing policy in place increases investors' confidence in the Company.</p> <p>Employees are strongly encouraged to speak up and raise any suspicions of wrongdoing, malpractice or impropriety in the management of the Company's business by bringing up these issues with their line managers or through the internal whistleblowing procedures, also known as the Non-Compliance Hotline that was 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.</p> <p>The identity of the whistleblower is also safeguarded at all times. 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 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, the Non-Compliance Hotline is managed by an independent third party to respect anonymity and protect a whistleblower.</p> <p>Employees are assured that all reports will be properly investigated and treated with confidentiality.</p> <p>A Business Ethics and Fraud Committee (BEFC) 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</p>



	<p>Committee, consisting of senior managers of the Company, and chaired by the CEO, ensures an investigation is conducted, 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.</p> <p>In 2017, eight complaints were received and investigated.</p>	
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**Intended Outcome**

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

**Practice 4.1**

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board comprises of eight Directors, the majority of whom are Independent Directors. The Chairman is a Non-Independent Non-Executive Director, five Directors are Independent Non-Executive Directors and two are Executive Directors, comprising the CEO and CFO.</p> <p>Independent Directors constitute 62.5% of the Board.</p> <p>All five Independent Non-Executive Directors have satisfied the independence test carried out in 2017, in line with the Listing Requirements, as part of the Board Effectiveness Evaluation.</p> <p>The Company will at all times, have a majority of Independent Directors.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

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

### Practice 4.2

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

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

<b>Application</b>	:	Applied - Annual shareholders' approval for independent directors serving beyond nine years	
<b>Explanation on application of the practice</b>	:		
<b>Explanation for departure</b>	:	<p>The retention of Independent Directors who have served a cumulative term limit of nine years, are submitted for Shareholders' approval at each AGM, on an annual basis.</p> <p>In addition, each Independent Director undergoes an independence assessment in line with the Listing Requirements which assesses among others, the Independent Non-Executive Directors' contribution, ability to display independent judgment in the boardroom, family relationships, contractual relationships, shareholding in the Company and financial links with other Directors or Shareholders of the Group to ensure their ability to remain independent in their character and judgement, and without any conflicts of interest.</p> <p>Having served for a cumulative term of more than nine years, the following Directors who have fulfilled the requirements of the independence assessment, are being proposed to be retained as Independent Directors at the forthcoming AGM:</p> <ul style="list-style-type: none"><li>• Dato' Mohd. Rafik Bin Shah Mohamad</li><li>• Tan Sri Datuk (Dr.) Rafiah Binti Salim</li></ul> <p>The Company will also put in place the two-tier voting process in its Constitution for the retention of Independent Directors who have served for more than 12 years in that capacity.</p>	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**Intended Outcome**

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

**Practice 4.3 - Step Up**

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

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

**Intended Outcome**

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

**Practice 4.4**

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Company places great emphasis on the principle of diversity and recognises the benefits of diversity in its broadest sense and considers diversity at the Board level and Senior Management level to be an essential element of ensuring the effectiveness of the Board and Senior Management.</p> <p>A diverse Board and Senior Management Team is one that possesses a balance of skills, experience, age, cultural background, gender and a diversity of perspectives that are relevant to the Company's business and its strategic objectives.</p> <p>The Board, through the Nomination and Compensation Committee, has in place procedures to enhance, clarify and formalise its position on Board Composition, Independence, and Board Skills Matrix. The guiding principles on Board Composition provides the size of the Board, the selection criteria, the Directors' skill sets and Board diversity based on skills, experience, age, cultural background and gender to be considered for the appointment of new Directors.</p> <p>The Company adopts and pursues diversity in considering the composition of the Board and the Senior Management Team and adopts a meritocracy system which does not discriminate, particularly on the grounds of gender, age and ethnicity/cultural background. All appointments to the Board and to the Senior Management Team must be on merits.</p> <p>The Board remains focused on enhancing the diversity of the Directors' perspectives. Directors are chosen for their corporate leadership skills, competence, experience and expertise. Diversity of experience in business, corporate industry standing, integrity as well as academic background are also considered.</p> <p>The appointment of Senior Management is also based on merit and leadership skills, with due regard for diversity in skills, experience, age, cultural background and gender.</p> <p>The right blend of skills, experience and a diverse background is crucial in ensuring the attainment of long-term value for the Company's Shareholders.</p> <p>The Board has in place a Diversity Policy for both Board and Senior Management which was last reviewed and approved by the Board on 20 February 2018.</p>

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

**Intended Outcome**

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

**Practice 4.5**

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

<b>Application</b>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	<p>The Board has in place a Diversity Policy for both the Board and its Senior Management, which was last reviewed and approved by the Board on 20 February 2018. The Diversity Policy recognises the effectiveness that a diverse workforce can bring. A balance of skills, experience, age, cultural background, gender and differing perspectives are essential in understanding all aspects of a business and its strategic intent.</p> <p>Board Diversity is an agenda for discussion by the Nomination and Compensation Committee.</p> <p><i>(For further details on diversity, please see the application of Practice 4.4)</i></p> <p>The Company currently has eight Directors, which is the maximum number of Directors allowed by the Company's Constitution. There are two female Directors, which constitute 25% of the Board. When a position becomes vacant, the focus would be to appoint a female Director with the required expertise, experience, corporate industry standing and skills in view of adding value to an already experienced Board of Directors, in order to achieve at least 30% female Directors on the Board, in line with MCCG and the government's target. All appointments to the Board must be based on merit.</p>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	The Board has been working on identifying a pool of suitable potential female Directors, so that the Company is prepared should there is a vacancy on the Board.
<b>Timeframe</b>	:	This will be reviewed on an annual basis in its efforts towards the application of Practice 4.5.

**Intended Outcome**

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

**Practice 4.6**

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

Application	:	Applied	
Explanation on application of the practice	:	<p>Aside from internal nominations and networks from various parties, the Company, in its efforts to identify more female candidates, leverages on the networks of the Women Directors Registry, which is a repository of profiles of women leaders who have been groomed for roles on the Board of Public Listed Companies.</p> <p>However, all appointments of new Directors will be subjected to screening and appropriate recommendation of the Nomination and Compensation Committee prior to consideration and approval of the Board.</p>	
Explanation for departure	:		
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.			
Measure	:		
Timeframe	:		



**Intended Outcome**

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

**Practice 4.7**

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

<b>Application</b>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	<p>The Nomination and Compensation Committee is chaired by Tan Sri Dato' Seri Syed Anwar Jamalullail, who is a Non-Independent Non-Executive Director. The election of Tan Sri Dato' Seri Syed Anwar Jamalullail as the Chairman of the Committee is not only based on his exemplary leadership, but is also based on his experience and dedication in ensuring an effective Board, and also his commitment in leading the Board's succession planning. His vast experience and knowledge would allow a more efficient and effective Committee, and setting the direction and objective of the Committee.</p> <p>As an alternative practice, all members of the Committee are Non-Executive Directors and the other Committee members are all Independent Directors. Thus, the Committee is made up of a majority of Independent Directors, bringing a balance to the Committee and allowing robust discussions and constructive assessments on policies and procedures.</p>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	Tan Sri Dato' Seri Syed Anwar Jamalullail is subjected to re-election, for Shareholders' approval at the AGM, when necessary. He undergoes an annual Board Effectiveness Evaluation to ascertain the effectiveness of his contributions to the Board and the Board Committees in which he chairs or sits.
<b>Timeframe</b>	:	<div>This will be reviewed on an annual basis in its efforts towards the application of Practice 4.7.</div>

### Intended Outcome

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

### Practice 5.1

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

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board carried out a Board Effectiveness Evaluation in 2017, which was facilitated by an independent external party, Tricor Corporate Services Sdn. Bhd. to evaluate and assess amongst others, the function, structure, membership and effectiveness of the Board as a whole and also of the Board Committees, the efficiency of the meetings, the contribution and performance of individual Directors and the independence of the individual Directors.</p> <p>Further, the Board complemented the Board Effectiveness Evaluation with the adoption of the Board Skills Matrix, a tool which assesses the composition of the Board and identifies gaps in the required skills, experiences, knowledge and areas of expertise. 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.</p> <p>Overall, the results of the Board Effectiveness Evaluation were positive based on the majority of responses and feedback received. The areas of improvement identified are to increase the Board's technical knowledge in among others, updates in accounting standards, in the areas of digital, internet economy, e-commerce and social media, including its challenge and growing opportunities.</p> <p>The results of the 2017 Board Effectiveness Evaluation will be used as a basis for a refined Board Improvement Programme to be adopted in 2018, emphasising on developing and implementing action plans in addressing improvement areas that have been identified from the Board Effectiveness Evaluation.</p> <p>The objective of the Board Effectiveness Evaluation and the Board Improvement Programme is to have a strong Board which is characterised by a broad range of views arising from different experiences when discussing business, has the competencies required to make informed and critical decisions and has sustainable development as its core value, thus promotes the interests of the Company's Stakeholders, particularly their long-term interests, fairly and effectively.</p>

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

### Intended Outcome

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

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

### Practice 6.1

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board has in place a Remuneration Policy in determining the remuneration of the Directors and Senior Management. The Remuneration Policy is designed with the key objective of attracting and retaining experienced, qualified and high calibre members of the Board and also the right calibre of employees to drive the business strategy, objectives, values and long term interests of the Company.</p> <p>The remuneration policy is currently under the purview of the Nomination and Compensation Committee (the Committee).</p> <p>The Committee is guided by the following philosophy and principles in recommending to the Board the remuneration to be paid to the Non-Executive Directors and the employees, whereby in determining the level of compensation, the Committee shall take into account:</p> <ol style="list-style-type: none"><li>the demands, complexities of activities and performance of Company;</li><li>the level of responsibilities, the skills, expertise and experience required;</li><li>industry benchmarks against similar companies;</li><li>the market practice; and</li><li>the risk environment and ensure that the remuneration does not encourage excessive risk-taking.</li></ol> <p>The Executive Directors and the Senior Management level are paid salaries, allowances, bonuses and other benefits given in accordance with the local policy and the Nestlé Corporate Expatriation Policy, whenever applicable.</p> <p>The remuneration of the Executive Directors and the Senior Management is also guided by the compensation framework of Nestlé S.A., which is the major shareholder of the Company. The compensation framework contains both fixed and performance-linked elements. These two (2) elements vary depending on the level of responsibility and complexity of the role.</p>

	<p>Each year, the performances of the Executive Directors are reviewed by Nestlé S.A. and adjustments to their remuneration are made based on their performance and contributions in the preceding year and also based on the Company's performance.</p> <p>In relation to the Non-Executive Directors, they are paid fixed annual director fees as members of the Board and Board Committees. Meeting attendance fees are also paid for their attendance at the respective meetings. The Committee is further guided by the following:</p> <ul style="list-style-type: none"> <li>i. a suitable balance of fees between annual Board retainer fees, annual Board Committee fees and meeting attendance fees. The principle is to ensure recognition of workload and responsibilities for the Non-Executive Directors who sit on the various Board Committees, ensuring a balance is struck between compensating for time spent, frequency of meetings and also as a reflection of the continued responsibilities for all Directors;</li> <li>ii. the remuneration should not conflict with their obligation to bring objectivity and independent judgment;</li> <li>iii. provisions of Article 107 of the Company's Constitution;</li> <li>iv. the remuneration must not place an inappropriate burden on the Company's finances;</li> <li>v. the Committee undertakes a robust review of the remuneration packages of the Non-Executive Directors at least once in every three years and thereafter makes its recommendation to the Board. In conducting the review, the Committee may engage the services of an independent professional advisor; and</li> <li>vi. all remuneration to be paid to the Non-Executive Directors, including any reviews of remuneration shall be tabled to the Shareholders at the AGM for approval.</li> </ul> <p>The Remuneration Policy was approved by the Board on 20 February 2018 and the policy will be periodically reviewed.</p> <p><i>The Remuneration Policy is available on the Company's corporate website at <a href="https://www.nestle.com.my/aboutus/investors">https://www.nestle.com.my/aboutus/investors</a></i></p>
<p><b>Explanation for departure</b> :</p>	<div></div>
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>	
<p><b>Measure</b> :</p>	<div></div>
<p><b>Timeframe</b> :</p>	<div></div>

### Intended Outcome

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

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

### Practice 6.2

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

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board has in place a combined Nomination and Compensation Committee (the Committee) with five members, four of whom are Independent Non-Executive Directors.</p> <p>The main objectives are as follows:</p> <ol style="list-style-type: none"><li>1. To make sure that the Board comprises of individuals with the necessary skills, knowledge and experience for the effective discharge of its responsibilities and to have an oversight of all matters relating to corporate governance.</li><li>2. To assess and make recommendations to the Board on the policies for remuneration of the members of the Board, Senior Management and employees of the Company.</li></ol> <p>The principle responsibilities of the Committee with regard to the compensation functions are as follows:-</p> <ol style="list-style-type: none"><li>1. Ensure that the remuneration package of the members of the Board and employees of the Company are benchmarked against industry standards in light of the Company's performance in the industry and to ensure market competitiveness in order to attract and retain talent;</li><li>2. Determine the Company's remuneration philosophy and principles to ensure that these are in line with the business strategy, objectives, values and long term interests of the Company and comply with all regulatory requirements;</li><li>3. Review the Company's remuneration practices in relation to the risk environment and ensure that remuneration does not encourage excessive risk-taking and is determined within the Company's risk management and control framework taking into account the long-term interests of shareholders, fund investors and other stakeholders;</li><li>4. Review and approve the management's proposal for the annual salary increase package for the employees as recommended by the Group Human Resource Department for subsequent approval by the Board;</li></ol>

	5. Review and recommend to the Board the remuneration of the Non-Executive Directors, by taking into account the level of expertise, commitment and responsibilities undertaken;  6. Review the individual remuneration packages of the Executive Directors and the Senior Management Team;  7. Review the report on the remuneration to be disclosed in the Annual Report, in line with applicable statutory and regulatory disclosure requirements; and  8. Review the employees' turnover by category.  <i>The Terms of Reference of the Committee is available on the Company's website at <a href="https://www.nestle.com.my/aboutus/investors">https://www.nestle.com.my/aboutus/investors</a></i>	
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**Intended Outcome**

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

**Practice 7.1**

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The Company has disclosed in detail, on a named basis, the remuneration of its individual directors which includes fees, salary, emoluments and benefits.  The remuneration tables can be found at page 14 of the Company's Corporate Governance & Financial Report 2017.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		



**Intended Outcome**

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

**Practice 7.2**

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

<b>Application</b>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	<p>The Company follows the compensation framework of Nestlé S.A.</p> <p>It is cognisant that the future success of the Company is dependent on its ability to attract, motivate and retain the right talented employees. Among the various programmes to support this ambition is a competitive remuneration policy. The Company believes in a performance culture as well as good corporate governance and corporate social responsibility. Therefore, the Company's remuneration is based on the following principles:</p> <ul style="list-style-type: none"> <li>• pay-for-performance to support the Company's short-term and long-term objectives;</li> <li>• compensation aligned with long-term strategy of the Company and shareholders' interests;</li> <li>• coherence in the Company's remuneration plans and levels throughout the Company;</li> <li>• competitiveness versus external market comparisons;</li> <li>• appropriate balance of fixed and variable remuneration and short-term and long-term rewards.</li> </ul> <p>The retention of talented employees is critical to the successful delivery of the Company's strategy. The Company is of the view that disclosing the remuneration of Senior Management will be a detriment to the Company and may lead to:</p> <ul style="list-style-type: none"> <li>• other competitor companies attempting to 'poach' performing executives;</li> <li>• upward pressure on executive packages as lesser paid executives will demand comparability;</li> <li>• an invasion of privacy and may expose named officers to extortion attempts and other criminal acts.</li> </ul>

	<p>The Company takes guidance from Nestlé S.A. to determine the level of remuneration that the Senior Management of the Company receive. Such guidance ensures that remuneration packages are set at industry standards, reflects the roles, responsibilities, level of skills and experience of Senior Management, and motivates performance.</p> <p>The performances of Senior Management are evaluated on an annual basis and measured against the targets sets for the year. The remuneration packages are reviewed annually and adjustments to their remuneration are made based on not only on their individual performance and contributions in the preceding year, but also the Company's performance.</p> <p>The Financial Report 2017 does disclose the total remuneration of key management personnel (as defined therein) of the Company.</p>	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	The Board will monitor the market practice in respect of such disclosure.
<b>Timeframe</b>	:	This will be reviewed on an annual basis in its efforts towards the application of Practice 7.2.

**Intended Outcome**

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

**Practice 7.3 - Step Up**

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

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

**Intended Outcome**

There is an effective and independent Audit Committee.

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

**Practice 8.1**

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>With effect from 20 February 2018, the Chairman of the Board, Tan Sri Dato' Seri Syed Anwar Jamalullail is no longer the Chairman of the Audit Committee.</p> <p>The Chairman of the Board and the Chairman of the Audit Committee are different Directors. This enables the Audit Committee Chairman to provide full commitment and devote adequate time to matters under the responsibilities of the Audit Committee and to exercise independent judgment.</p> <p>The Audit Committee is now chaired by Dato' Mohd. Rafik Bin Shah Mohamad, an Independent Director and a qualified Chartered Accountant who is a member of the Malaysian Institute of Accountants (MIA).</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**Intended Outcome**

There is an effective and independent Audit Committee.

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

**Practice 8.2**

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	<p>Currently, none of the members of the Board are former key audit partners of the Company.</p> <p>The Terms of Reference of the Audit Committee provides that any former key audit partner is to observe a cooling-off period of at least two years before being appointed as a member of the Audit Committee.</p>	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**Intended Outcome**

There is an effective and independent Audit Committee.

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

**Practice 8.3**

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Group's transparent and professional relationship with the external auditor is primarily maintained through the Audit Committee and guided by the principles of the Malaysian Code on Corporate Governance 2017. Engagement of the Company's external auditor is reviewed by the Audit Committee prior to submission to the Board for approval.</p> <p>On an annual basis, the Audit Committee assesses the suitability, objectivity, performance and independence of the external auditor. In carrying out the assessments, the Audit Committee works closely with the management in assessing the suitability, performance and the independence of the external auditor by taking into account the following:</p> <ul style="list-style-type: none"> <li>• the Audit Committee's own assessment;</li> <li>• the feedback from senior finance personnel of the Company focusing on a range of factors the Audit Committee considered relevant to audit quality.</li> </ul> <p>Based on the review, the Audit Committee concluded that there has been appropriate focus and challenge on the primary areas of audit and the external auditor has applied robust challenge and skepticism through the audit conducted by them.</p> <p>The Audit Committee also obtained confirmation from the external auditor that they are and have been, independent throughout the conduct of the audit engagement in accordance with the terms of the relevant professional and regulatory requirements. Further, in ensuring the independence of the external auditor, the Audit Committee does impose a requirement on the external auditor to rotate the audit partner responsible for the Company audit every five years.</p> <p>In this regard, the Board is satisfied with the suitability and the independence of the external auditor.</p>
<b>Explanation for departure</b>	:	

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

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

**Intended Outcome**

There is an effective and independent Audit Committee.

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

**Practice 8.4 - Step Up**

The Audit Committee should comprise solely of Independent Directors.

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



## Intended Outcome

There is an effective and independent Audit Committee.

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

## Practice 8.5

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

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Audit Committee is chaired by a Director who is a Chartered Accountant and a member of the Malaysia Institute of Accountants (MIA). The Chairman of the Audit Committee, Dato' Mohd. Rafik Bin Shah Mohamad, and another member, Tan Sri Dato' Seri Syed Anwar Jamalullail, 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, with extensive corporate experience and equipped with the required business skills.</p> <p>All members of the Audit Committee have undertaken continuous professional development and in 2017, the various trainings relevant to their role as Audit Committee members are listed as below:</p> <p><u>Dato' Mohd. Rafik Shah Bin Mohamad:</u></p> <ul style="list-style-type: none"><li>• Highlights on Companies Act 2016</li><li>• ACI Breakfast Roundtable</li><li>• Game Changers under the Companies Act 2016: Key Insights &amp; Implication for Boardroom Matters</li><li>• Bursa Fraud Risk Management Workshop</li><li>• Khazanah Mega Trends 2017</li><li>• Managing the Risk of Fraud</li></ul> <p><u>Tan Sri Dato' Seri Syed Anwar Jamalullail:</u></p> <ul style="list-style-type: none"><li>• ACI Breakfast Roundtable</li><li>• Managing the Risk of Fraud</li></ul> <p><u>Tan Sri Rafiah Salim:</u></p> <ul style="list-style-type: none"><li>• Launching of Malaysian Code on Corporate Governance 2017</li><li>• International Director's Summit 2017, Enhancing Resilience Through Governance for Sustainability</li><li>• Minda Power Talk, Corporate Intelligence</li><li>• Managing the Risk of Fraud</li><li>• "Leading Change @ The Brain Corporate" Governance Breakfast Series</li></ul>

	<ul style="list-style-type: none"> <li>Key Highlights on the Latest Amendments to the Listing Requirements</li> </ul>	
<b>Explanation for departure</b> :		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b> :		
<b>Timeframe</b> :		

**Intended Outcome**

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

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

**Practice 9.1**

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	<p>The Board and the management follows as a guide, the contents of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers. In addition, the Company and the Nestlé Malaysia Internal Audit Department have in place, risk management guidelines, control measures and processes throughout the Company.</p> <p>Risk management is firmly embedded in the Company's key processes through its Risk Management Framework. Risk management practices are inculcated and entrenched in the activities of the Company, which requires, amongst others, establishing risk tolerance thresholds to actively identify, assess and monitor key business risks faced by the Company.</p> <p>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.</p> <p>Further details of the Company's Risk Management and Internal Control Frameworks can be found under the Statement of Risk Management and Internal Controls, at pages 37 to 40 of the Company's Corporate Governance &amp; Financial Report 2017.</p>	
<b>Explanation for departure</b>	:		
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**Intended Outcome**

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

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

**Practice 9.2**

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The features of the Company's Risk Management and Internal Control Frameworks and its adequacy and effectiveness can be found in the Statement of Risk Management and Internal Controls, at pages 37 to 40 of the Company's Corporate Governance & Financial Report 2017.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**Intended Outcome**

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

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

**Practice 9.3 - Step Up**

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

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

**Intended Outcome**

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

**Practice 10.1**

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	<p><b>Nestlé Malaysia Internal Audit Department</b></p> <p>The Nestlé Internal Audit is aligned to the Malaysian Code on Corporate Governance 2017. It is administered as a department within the Finance &amp; Control function of the Company but reports directly to the Audit Committee and functionally to the Nestlé S.A. Audit Department, also known as “Nestlé Internal Audit (Center)” in Vevey, Switzerland, thus ensuring its independence.</p> <p>Its main role is to undertake independent and systematic reviews of the Company’s processes and guidelines and to report on their application and compliance. The outcome of the reviews are objectively reported to the Senior Management and to the Audit Committee, prior to the Board.</p> <p>The work of the Nestlé Internal Audit is in line with an established Internal Audit Charter and in accordance with the Standards for the Professional Practice of Internal Auditing Framework.</p> <p>Further details of the Nestlé Internal Audit can be found in the Statement of Risk Management and Internal Controls, at pages 37 to 40 of the Company’s Corporate Governance &amp; Financial Report 2017.</p>	
<b>Explanation for departure</b>	:		
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

### Intended Outcome

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

### Practice 10.2

The board should disclose–

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Nestlé Internal Audit is headed by Ms. Genevieve Yeoh Swee Hoon, 47 years of age. Ms. Genevieve obtained her Chartered Institute of Management Accountant (CIMA) qualification in 1996. She has served the Company for 17 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 Internal Audit.</p> <p>The team consists of five auditors, all of whom are qualified and possess the required expertise and experience. All members of the Nestlé Internal Audit are free from any relationships or conflicts of interest which could impair their objectives and independence.</p> <p>The work of the Nestlé Internal Audit is in line with an established Internal Audit Charter and in accordance with the Standards for the Professional Practice of Internal Auditing Framework.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

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

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

### Practice 11.1

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board has in place an effective communication channel between the Company, its Shareholders and the general public.</p> <p>As part of the Company's commitment towards this objective, experienced members of the management are directly involved in the Company's investor relations activities, which is led by the CFO.</p> <p>Quarterly financial results are announced as early as possible and audited financial statements are published within three months after the end of the financial year. Quarterly statements are issued to keep Shareholders informed of the performance and operations of the Company.</p> <p>The Company holds separate quarterly briefings for fund managers, institutional investors and investment analysts after its announcement of each quarterly results to Bursa. In 2017, the Company held four quarterly briefings and the Company also engaged with institutional investors on a regular basis. The quarterly briefings which are conducted by the CFO are intended not only to promote the dissemination of the financial results of the Company to fund managers, investors and Shareholders but to also keep the investing public and other Stakeholders updated on the progress and development of the Company's business.</p> <p>In addition to providing comprehensive insights into the Company's financial performance, the Board also recognises the importance of communicating the Company's business strategies and updates on the progress of the current business initiatives.</p> <p>The Board places great importance in maintaining active dialogue and effective communication with Shareholders and investors, ensuring accountability and transparency to enable Shareholders and investors to make informed investment decisions. In terms of disclosure of material information, the Board adopts a comprehensive, accurate and timely approach in compliance with the Listing Requirements and the Corporate Disclosure Guide of Bursa.</p> <p>The Company's website at <a href="http://www.nestlé.com.my">www.nestlé.com.my</a> is a major channel for providing our Shareholders and other Stakeholders with information on the Company's corporate governance structure, policies and systems. We recognise that not all Shareholders and Stakeholders have ready access to the internet. For those who do not, hard copies of the Company's website information listed above are available free of charge upon written request to the Company Secretary.</p>



	<p>The Company's AGM represents the primary platform for direct two way interaction between the Shareholders, Board and the Senior Management Team of the Company and acts as a principal forum for dialogue with all Shareholders for the Company and the Board 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 Senior Management Team and the Company's external auditor, are present to answer questions raised and provide clarification as required by Shareholders.</p> <p>A press conference will be held immediately after the AGM where the Chairman, CEO, CFO and selected members of the Senior Management Team provide updates to the media representatives of the resolutions passed and answer questions on matters relating to the Company. The outcome of the AGM is announced to Bursa on the same meeting day.</p> <p>The Company's primary contact with Shareholders is through the Chairman, CEO, CFO and the Company Secretary. The Company Secretary provides feedback and responses to the Shareholders' queries, save for sensitive information, which may not be privy to the general public. Written responses will also be given, if necessary.</p>	
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**Intended Outcome**

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

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

**Practice 11.2**

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	<p>The Board understands the efficacy of adopting the International Integrated Reporting Councils Integrated Reporting frameworks. The benefits of which include greater clarity on business issues and performance, more integrated thinking and management, and more efficient reporting for both users and preparers of reports.</p> <p>The Board looks to examine the steps needed to fully venture into Integrated Reporting and will take measures to initiate the process. For the year under review, the Annual Review, the Corporate Governance and Financial Report and the Nestlé in Society report have all been guided by the &lt;IR&gt; frameworks. Particularly those that relate to value creation, connectivity and strategy. Each year will witness further steps taken to eventually having a fully integrated report.</p>	
<b>Explanation for departure</b>	:		
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**Intended Outcome**

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

**Practice 12.1**

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>Notice of the AGM is given 28 days prior to the meeting.</p> <p>The Company's 2017 AGM was held on 27 April 2017 and the notice for the AGM was issued on 29 March 2017, 28 days prior to the date of the AGM, well in advance of the 21 day requirement of the Companies Act 2016 and the Listing Requirements. This allowed additional time for the Shareholders to consider the proposed resolutions tabled at the AGMs and to make informed decisions accordingly. It also allowed the Shareholders to make the necessary arrangements to attend and participate in the AGM, either in person, through corporate representative, proxies or attorneys.</p> <p>The Company also distributes an Administrative Note together with the notice of AGM, which provides information to the Shareholders regarding the AGM details, and their entitlement as a Shareholder.</p> <p>The Notice of the 2018 AGM which will be held on 26 April 2018 will also be given to the Shareholders at least 28 days prior to the meeting.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**Intended Outcome**

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

**Practice 12.2**

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>All Directors attended and participated at the Company's AGM in 2017.</p> <p>The Company's AGM acts as a principal forum for dialogue with all Shareholders and represents the primary platform for direct two-way interaction between the Shareholders, Board and the Senior Management Team of the Company.</p> <p>At the AGM, Shareholders actively participate in discussing the resolutions proposed, raising questions, seeking clarification and raising concerns directly to the Directors. The presence of all Directors, including the CEO and CFO, the representatives of the Senior Management Team and the Company's external auditor ensured that meaningful responses were provided to the Shareholders.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**Intended Outcome**

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

**Practice 12.3**

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

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

<b>Application</b>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	<p>Each year, the venue of the AGM is chosen in a centrally accessible location, which is close to public transport and easily reached via major link ways.</p> <p>Shareholders are given 28 days' notice of the AGM, sufficient time to make arrangements to attend the AGM.</p> <p>As an alternative practice, Shareholders who are unable to make the journey are allowed to send a proxy in place to attend the AGM, to participate, speak and to vote on their behalf.</p> <p>Shareholders can also submit any question or queries prior to the AGM.</p>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	The Company will continue to explore the availability of a reliable technology which is suitable and efficient for this purpose.
<b>Timeframe</b>	:	<div>This will be reviewed on an annual basis in its efforts towards the application of Practice 12.3.</div>

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

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

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