

Management Discussion & Analysis

ROLAND BALA
Managing Director



Management Discussion & Analysis

Heineken Malaysia Berhad delivered a commendable performance in 2019 and continued to maintain market leadership despite the challenging external environment. The focus on our core brands and big innovations are bringing results, as we continued to excite consumers with world-class experiences, whilst ensuring we create value sustainably for our stakeholders.

OVERVIEW

2019 was a challenging year with consumer confidence sliding downwards after peaking in the previous year attributed to new found optimism partly due to the change in Government as well as the Goods and Services Tax (GST) holiday for several months that helped spur consumption.

Since my appointment as Managing Director in September 2018, I have completed my first full year at the helm of this great Company and I am proud to report that the organisation is in good shape as we continued building on the strong foundations and our 55-year history of growing together with Malaysia.

We made sure to reflect on our vision, values and what we wanted to achieve as One Strong Winning Team. We asked difficult questions of ourselves, who we are and what drives us forward. And this resulted in the realisation of our collective purpose as HEINEKEN Malaysia. We Are HEINEKEN. Our Purpose: Brewing a Sustainable Future for Our People, Business & Planet. Our Ambition: To be the undisputed market leader in volume, revenue and sustainability.

OUR STRATEGY

At HEINEKEN Malaysia, we embed focus and simplicity at the core of our strategy. We are the leading brewer in the country, with a portfolio of iconic international and local brands that are supported by consumers who share the same Passion for Quality that is a key HEINEKEN value. In 2019, we put

our focus into growing our core brands and big innovations. This approach has given the team greater clarity and enabled us to leverage the key drivers of our revenue and earnings. And we can only do this by taking care of our people with the number one HEINEKEN behaviour in mind – Put Safety First, whilst also ensuring we do the right things for our planet today for a sustainable future.

In 2019, we put our focus into growing our core brands and big innovations. This approach has given the team greater clarity and enabled us to leverage the key drivers of our revenue and earnings.

Looking back, we have sharpened our commercial execution, enabling us to grow our mainstream and premium categories. 2019 was an eventful year and we continued to excite consumers with world-class brand activations and promotions. Amongst notable campaigns, Heineken®, the proud official partner of UEFA Champions League, offered Malaysians the ultimate football experience through its “Unmissable” campaign. Staying true to its identity as a beer born on the streets of Asia, Tiger Beer uncaged Malaysian talents and brought football legend Rio Ferdinand to Kuala Lumpur for its Tiger Street Football Festival. Guinness, the World’s No. 1 Stout, once again hosted the iconic St Patrick’s celebration, while Apple Fox Cider made it into the Malaysia Book of Records with its giant fox installation in conjunction with the brand’s ‘Wayyyy More Apples’ campaign.

The big highlights included the launch of Heineken® 0.0 and Tiger Crystal, the two new additions to our winning portfolio. Heineken® 0.0 is a dealcoholised beer that caters to new occasions for beer drinkers who enjoy the taste of beer but not necessarily the effects of alcohol. Heineken® 0.0 is also a great choice for those seeking to moderate their alcohol consumption as part of a balanced lifestyle. Globally, we observe a growing demand for healthier food options, thus we are confident that Heineken® 0.0 is an excellent proposition that addresses the needs of both today’s and tomorrow’s consumers.

Tiger Crystal, meanwhile, is an ultra-refreshing, easy-to-drink, and less bitter beer. Crystal cold filtered at -1°C to lock in the most desirable flavours and aromas, we are already seeing positive reception and growing demand for this less bitter proposition, which is what we call a sessionable beer. Another big innovation that we continued growing in 2019 is Apple Fox, a New Zealand inspired cider, that continued to help us engage new consumers and drive penetration. With these three big innovations on the table, we are well poised to grow for the future.



Management Discussion & Analysis



I am pleased to report that HEINEKEN Malaysia's world-class brand building efforts were once again recognised by Malaysian consumers at the Putra Brand Awards 2019. Heineken® won the Platinum award, while both Tiger Beer and Guinness secured Gold. HEINEKEN Malaysia's portfolio of brands have received a total of 30 awards at the Putra Brand Awards since 2010, truly securing its place amongst Malaysia's favourite brands.

Innovation does not stop with our brands. It is also about our route-to-market as well as our ways of working. With the rapid growth of technology and increasing importance of data-driven solutions, we are readying ourselves to be at the forefront of this revolution by investing in strategic platforms and channels that will be crucial for the future success of our business. Launched in 2018, Drinkies.my is a one-stop-shop that curates drinks, snacks, and services for all party occasions. Beyond enhancing the end-to-end consumer experience from purchasing to delivery of alcoholic beverages, the online platform is the first in the country to deliver chilled beers and ciders on demand to

consumers' doorstep within 60 minutes for selected areas. The on-demand delivery service is currently available in major cities of Peninsular Malaysia.

OUR PERFORMANCE

Revenue for the year ended 31 December 2019 grew by 14% to RM2.32 billion for the year primarily driven by robust sales performance of all core brands and successful new product launches of Heineken® 0.0 and Tiger Crystal.

The Group registered higher profits before tax, which grew 8% to RM412 million. The growth was supported by our effective execution in commercial initiatives and improved operational efficiency. Earnings per share increased by 10.6% from RM0.94 to RM1.04 per share.

Net cash from operating activities was RM411 million for the year, an increase of 18% resulted mainly from higher operating profits and improved operational efficiency which drives favorable working capital movement.

+14%

REVENUE

RM2.32 billion

+8%

PROFIT BEFORE TAX

RM412 million

+10.6%

EARNINGS PER SHARE

RM1.04 per share

+18%

NET CASH FROM OPERATING ACTIVITIES

RM411 million

Management Discussion & Analysis

Net assets increased to RM394 million as compared to RM371 million as at 31 December 2018, in line with the continued capex investments to support supply chain capacity upgrades along with the enhancement to digital and IT capabilities.

HEINEKEN Malaysia paid a total of RM1.26 billion in excise, custom duties, and sales tax for the year. For income taxes, the Group has incurred a total of RM99 million, translated into an effective tax rate of 24%.

Based on our 2019 results, the Board has proposed a single tier final dividend of 66 sen per stock unit for the financial year ended 31 December 2019. Subject to approval of the shareholders at the forthcoming Annual General Meeting, the single tier dividend will be paid on 12 November 2020 to shareholders registered at the closing of business on 15 October 2020. Together with a single tier interim dividend of 42 sen, which was paid on 25 October 2019, our total dividend payout for the year amounts to 108 sen per stock unit. The dividend payout ratio and shareholder return for the year is 104.2% and 37% respectively.

PEOPLE & PLANET

The results of our performance in 2019 is due to the hard work and dedication of our people - our One Strong Winning Team. During the year, our efforts in listening to our people better, speeding up processes, reviewing rewards and benefits, and embedding safety, focus and clarity as winning mindsets have contributed to the creation of a sharper team. Putting the right people in the right roles and empowering them to do the right things have an overall effect of motivating people to contribute above and beyond the call of duty. In 2019, HEINEKEN Malaysia's employee engagement score improved to 82% from 62% the previous year, whilst performance enablement improved to 77% from 71%.

We recognise that diversity and inclusion as important drivers of performance. Women's representation on the Board has exceeded the Malaysian Government's target of 30% for public listed companies, with a 57:43 male to female ratio. Amongst our employees, we have a 50:50 male to female ratio in middle to senior management positions. We continue to tap on the rich diversity and experience of HEINEKEN's global community as we work towards creating a more inclusive workplace for all.

The safety of our people is always a top priority at HEINEKEN Malaysia. Our goal is for zero accidents and for everyone to go home safely at the end of every day. In 2019, we had zero fatalities, but reported seven accidents ranging from minor to serious, of which four were amongst employees and three amongst contractors. We take safety seriously and continuously engage and remind our people to practice the HEINEKEN Life Saving Rules, whilst following the following principles: (1) Safety is everyone's responsibility, (2) If it is not safe, don't do it, and (3) If there is a rule, don't test it. Moving forward, it is important we further improve on our efforts, encourage proactive reporting of near misses and incidents and embed a safety

mindset in every person, be it our direct employee, contractor, or our business partners including distributors and retailers.

Sustainability is at the core of our business. I take pride in the fact that HEINEKEN Malaysia won three awards at the Sustainable Business Awards 2019 – winning the Best Water Management award for the second consecutive year, in recognition of the Company's outstanding efforts in protecting and managing water resources for production and beyond. HEINEKEN Malaysia also received a Special Recognition for Sustainability in the Community and a Special Recognition for Waste & Material Productivity.

We reaffirm our commitment to the HEINEKEN Global sustainability strategy, Brewing a Better World. Compared to 2014, we have reduced our water consumption for production by 15%, cut CO₂ emissions by 18.4%, and continued to increase use of renewable sources of energy, practice sustainable sourcing, and ensure zero waste to landfill through proper waste management. We remain focused on improving our environmental performance but we also go beyond our immediate operations to do



Management Discussion & Analysis

our part in helping to conserve our watershed. Our community outreach and education programmes through HEINEKEN Malaysia's corporate social responsibility arm SPARK Foundation have made significant impact to our surrounding communities, especially in creating greater awareness and participation in environmental protection initiatives.

Over the years, we have invested RM19.5 million in river rehabilitation, watershed health protection initiatives, education and partnership programmes. SPARK Foundation's programmes have engaged more than 46,000 people across 158 communities. In 2019, we collaborated with our partners from Government agencies, NGOs, as well as local communities and our employees to reforest 1 hectare of degraded peat swamp in the Raja Musa Forest Reserve. We also became the first corporation to build a 305-metre clay dyke in the forest, which is estimated to store up to 150 million litres of water for Sungai Selangor annually.

Besides the environment, education is another key focus area in HEINEKEN Malaysia's corporate responsibility efforts. In 2019, our Tiger Sin Chew Chinese Education Charity Concert (Tiger CECC) raised more than RM20 million for 12 schools. Since 1994, we have helped raise more than RM355 million for 559 schools nationwide. We are proud to see this platform resonate well with local communities as we strive to create a positive and lasting impact through better access to education. I take this opportunity to salute all who have supported the Tiger CECC platform whether through monetary donations or in volunteering time and effort in organising the fundraising activities. Such acts of generosity and kindness remind us of the power of community spirit, and how society is able to come together to build a better future together.

Through SPARK Foundation, we also run the English Enrichment Training Programme (EETP) with the aim of building up the capabilities of English Language teachers in rural communities. Since EETP's launch in 2012, we have invested close to RM6.5 million in the programme and successfully trained more than 630 educators from 366 schools in rural communities. In 2019, we are proud to report that the Foundation expanded the programme to benefit more teachers and schools in Sabah and Sarawak.

We believe that investing in our people and protecting the planet will enable us to grow sustainably and continue contributing positively to the socioeconomic wellbeing of Malaysia.

MANAGING OUR RISKS

Our approach to risk management is detailed in our Statement on Risk Management and Internal Control on page 77 to 83. The following table contains a general description of different areas of risks and actions undertaken by Management to mitigate the risk:

REGULATORY & TAX

We continue to engage the Government on key issues affecting the industry, in support of the country's growth ambition as well as recovery from the significant economic impact attributed to the ongoing global pandemic.

ILLCIT ALCOHOL

We fully support the Government's efforts in eradicating illicit alcohol, which represents a loss of revenue to both Government and Industry. We continue to work proactively to raise awareness about the dangers of illicit alcohol through engagements with relevant enforcement authorities, our trade partners and consumers.

GROWING SENSITIVITIES

We advocate responsible consumption. The Heineken® brand spends 10% of its media budget annually on promoting moderation and responsible consumption. Through our global partnership with F1, we reinforce a bold message – When You Drive, Never Drink. We also adhere strictly to the HEINEKEN Responsible Marketing Code to ensure that all promotional activities are in line with cultural sensitivities in Malaysia.

SAFETY & SECURITY

We continue to increase awareness and practice of the HEINEKEN Life Saving Rules amongst our people. With regards to the ongoing Covid-19 pandemic, we have put in place strict guidelines and practices which are in line with the Government's Standard Operating Procedures, with daily monitoring and reporting that ensure compliance.

Management Discussion & Analysis

OUR OUTLOOK

In 2020, we are faced with a global health crisis of unprecedented proportions. The Covid-19 pandemic is expected to pose major challenges to our business. Our top 3 priorities are (a) ensuring the health, safety and wellbeing of our people, (b) ensuring business continuity, and (c) preserving cash.

As I write this, the ongoing containment measures introduced by the Government in the form of various Movement Control Orders have affected all forms of economic activity. This included the mandatory closure of business activities deemed as non-essential by the Government whilst social distancing measures continue to pose unprecedented challenges to on-trade businesses and consumers' purchasing power. These, as well as the closure of the brewery from 18 March 2020 to 3 May 2020, resulted in a material decline in our revenue and the disruption from this is expected to persist and continue to have a significant adverse impact on the overall business performance of the Group for the financial year 2020.

The Board has stress-tested the Group's balance sheet, profit and loss, and cash flow across multiple scenarios. Group operating cash flow is expected to be significantly impacted in the second quarter of 2020 and over the rest of the financial year given slower cash

collections from the trade and weak demand particularly from the on-trade and tourism channels.

In order to mitigate the impact on the business, various initiatives have been implemented to accelerate business activities and improve operational efficiency to protect profitability and preserve cash. These include:

- Aggressive cost saving measures which include revision of commercial and marketing spend.
- Optimising working capital management and utilising borrowing facilities to ensure the ongoing liquidity of the Group.
- Acceleration of e-commerce channel and digital campaigns.
- Continuing to support key stakeholders to restart their respective business.
- Actionable and pragmatic commercial initiatives to adapt to the new business conditions.

We expect the overall business environment to remain challenging, particularly also with the continued challenges related to contraband beer. I take this opportunity to commend the Government and enforcement authorities for the efforts in combating illicit trade, which represent a loss of revenue to both Government and Industry. Undoubtedly, the economic impact of Covid-19 is expected to affect the spending power of consumers. With the high excise duties on beer (Malaysia ranks second highest in the world behind Norway and alongside Singapore), legal duty paid beer may become relatively less affordable for many and this phenomenon may spur the growth of illicit trade as consumers seek cheaper albeit illegal options. We are committed to continue engaging the Government on this key Industry issue.



6Cs

WHEN VISITING A RESTAURANT OR BAR

<p>CHECK YOUR DISTANCE Keep at least 1 metre physical distance between other customers.</p>	<p>CLEAN YOUR HANDS Frequently wash your hands with soap and use hand sanitiser.</p>	<p>CASH FREE PAYMENT Use contactless payment methods (E-wallets or Credit/Debit Cards) as much as possible.</p>
<p>CONTACT TRACING Do comply with the outlet's request to provide your personal details for contact tracing purposes.</p>	<p>COME BACK LATER If you're not feeling well, please stay at home.</p>	<p>CATCH A CAB When You Drive, Never Drink. Take a taxi or use e-hailing to get home safe.</p>

Management Discussion & Analysis

SUPPORTING OUR STAKEHOLDERS

I am also pleased to share that HEINEKEN Malaysia has proactively reached out to support our stakeholders through this challenging period. As soon as the economic restrictions due to the Government's Movement Control Order kicked in, we launched a working group internally to identify all relevant stakeholders who needed our support. During this difficult time, we reached out with a helping hand to support in whatever little ways we can. A summary of key initiatives is available below, but you may read more about our efforts which are published on www.heinekenmalaysia.com/covid-19.

PROTECTING OUR EMPLOYEES

- Safety & Health of people as a top priority
- Working from home
- Split teams back to the brewery and offices
- Health screening, social distancing and increased sanitisation measures at the workplace
- HEINEKEN Malaysia has committed until the end of 2020 that it will not carry out structural lay-offs as a consequence of Covid-19

SUPPORTING OUR BUSINESS PARTNERS

- Tiger Beer launched the Save our Street Food campaign, pledging RM1.5 million to support Malaysian restaurants, coffee shops and street food vendors during the challenging period
- HEINEKEN Malaysia launched the Raise Our Bars initiative, pledging RM1 million to support bars and pubs in recovering from financial difficulties during the crisis
- We equipped restaurants and bars with the necessary tools to continue selling beers for delivery and take away
- Additionally we published useful information for trade partners to understand available financing support from the Government, relevant health and safety guidelines, and standard operating procedures on reopening their business
- We also worked closely with our distributors nationwide to ensure they have access to the right financing support to sustain cash flow needs during this period

HELPING OUR COMMUNITIES

- We reached out to our neighbouring communities and provided B40 families with access to basic food items
- This initiative, in collaboration with MyKasih Foundation, enabled us to provide 80,000 meals to 3,120 Malaysians during the Movement Control Order period

ENGAGING OUR CONSUMERS

- We engaged consumers to "Socialise Responsibly" through the use of technology to be together while staying apart
- Heineken® 0.0 launched a campaign that encouraged consumers to stay fit, connected and safe at home featuring social media influencers who demonstrated creative dance and workout routines
- In preparation of restaurants and bars reopening, we engaged consumers on new habits to stay safe by practising social distancing, personal hygiene, as well as reminders to never drink and drive

KEEPING OUR INVESTORS INFORMED

- We proactively updated investors, media and analysts on key developments on HEINEKEN Malaysia's operational continuity and business impact via company announcements to Bursa Securities, media releases and our corporate website



Management Discussion & Analysis



ACKNOWLEDGEMENTS

In 2019, we welcomed several new Management Team members including Vasily Baranov (Sales Director) who joined us from HEINEKEN Vietnam, Salima Bekoeva (Supply Chain Director) who joined us from Multi Bintang Indonesia, Pablo Chabot (Marketing Director) who joined us from HEINEKEN China, and Kuhan Kanagarajan (Human Resources Director) who has wide experience in the HR field and comes from the banking and finance industry. With the additions of these capable leaders, the Management Team was able to focus on driving ahead on key business priorities, which contributed to sharper commercial execution and improved results.

In January 2020, we welcomed Janina Vriesekoop from HEINEKEN Netherlands as our new Transformation & Technology Director. Reporting to me and joining the Management Team,

Janina now leads the transformation agenda at HEINEKEN Malaysia with an aim to make digital technology a key enabler for our business.

Recently on 1 June 2020, our Asia Pacific President Dolf van den Brink succeeded Jean-François van Boxmeer as Chairman of the Executive Board and Chief Executive Officer (CEO) Heineken N.V. I take this opportunity to record our sincere appreciation to Jean-François for his outstanding leadership and invaluable contributions throughout his 15-year leadership that helped transform HEINEKEN into a truly global company. Jean-François leaves behind an impressive legacy and we wish Dolf many congratulations and all the best as he takes over the baton of leadership. I am sure we will miss Dolf's direct presence in the Asia Pacific region, and we will remember how he made the time to visit HEINEKEN Malaysia twice in the past two years, nevertheless we look forward with

excitement to a new era with Dolf at the helm of HEINEKEN globally.

Thank you.

Roland Bala
Managing Director
20 May 2020

