

Management Discussion & Analysis



Emerging Stronger from the Crisis

2022 was a new dawn as we stepped out from the global pandemic. Businesses reopened, social restrictions relaxed, international tourism resumed, and we pushed ahead to accelerate our recovery amidst the evolving challenges in the external environment.

INTRODUCTION

After a challenging two years in 2020 and 2021 due to COVID-19, we stepped into 2022 with a cautious outlook especially with the unpredictable nature of events related to the global pandemic. For seven weeks in 2020 and a further 11 weeks in 2021, we had to suspend operations at our Sungei Way Brewery in Petaling Jaya due to prolonged lockdowns. We are thankful that such a situation did not re-occur during 2022, as the high vaccination rate in the Malaysian population kept the severity of the pandemic under control.

In April 2022, Malaysia began its transition to the endemic phase, with gradual reopening of international borders, revival of tourism, and lifting of various restrictions on social and economic activities. Nevertheless,

entertainment outlets and bars continued to be on the National Security Council's Negative List, until the Government eventually abolished this from 15 May 2022. Throughout the year, we remained focused on our commitment to help drive the recovery of our trade partners, especially those in the on-trade who had persevered through much hardship during the previous two years. From ensuring supply continuity and product quality to creating engaging campaigns to drive consumer traffic back to restaurants and bars, the team at HEINEKEN Malaysia can look back at 2022 and be proud of the way we have worked together to deliver this commendable performance.

Indeed, the bold moves we took in the past two years to navigate through the storm whilst building a stronger future are starting to bear results. HEINEKEN's

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EverGreen strategy, launched at the height of the pandemic, is the next chapter of our growth journey, with key priorities to drive premium growth, fund the growth through cost and value initiatives, become the best connected brewer, raise the bar on sustainability and responsibility, and unlock the full potential of our people.

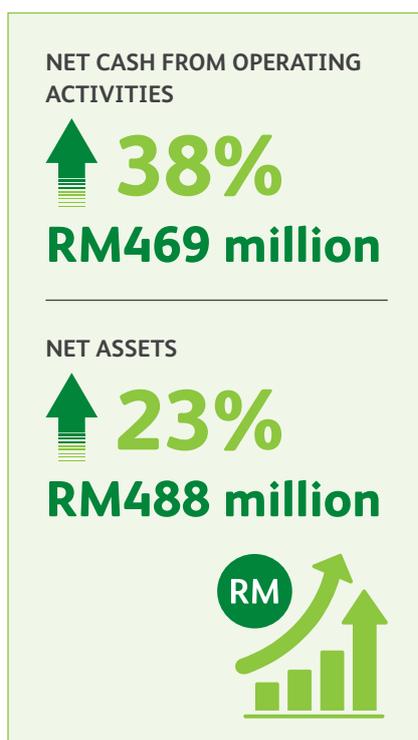
Undoubtedly, despite the positives, it was still a challenging period, especially with heightening geopolitical tensions globally, complex supply chain disruptions, rising inflationary pressures, and subdued consumer sentiments. Against this backdrop, I am thus pleased to share with you an improved performance for the financial year ended 31 December 2022 (FY2022) and that we have accelerated our recovery ahead of pre-pandemic levels in 2019. The following is a review of our business and financial performance, the highlights of our commercial campaigns, the progress of our sustainability commitments, as well as the outlook for 2023.

OUR PERFORMANCE

Compared to 2021, Group revenue rose by 44%, mainly attributable to an increase in sales volume following the reopening of international borders, increased on-trade consumption as well as positive mix impact from premium portfolio growth. It was also driven by low volume in 2021 as the brewery was closed for 11 weeks from 1 June 2021 to 15 August 2021 due to the Movement Control Order.

Group PBT increased by 85% to RM595 million, primarily due to strong post-COVID recovery, gradual recovery for the on-trade business, and improved revenue and cost management. The Group will continue to focus on the execution of the EverGreen strategy to drive sustainable growth. Correspond with the above, earnings per share increase to RM1.37 per share from RM0.81.

Net cash from operating activities for FY2022 increased by 38% to RM469 million while net assets increased by 23% to RM488 million mainly due to better business performance during the year.



Capital expenditure for FY2022 increased by 77% to RM199 million mainly due to higher spend incurred in line with the brewery upgrade, followed by higher cost incurred in returnable packaging materials and continued investment in digital and technology.

The Group paid a total of RM 1.4 billion in excise, custom duties, and sales tax for the year. For income taxes, the Group has incurred a total of RM182 million, translated into an effective tax rate of 30.5%. The higher tax rate was mainly due to the one-off Prosperity Tax imposed for Year of Assessment 2022.

For FY2022, the Board has declared and paid a single tier interim dividend of 40 sen per stock unit on 11 November 2022 and proposed a single tier final dividend of 98 sen per stock unit. Subject to approval of the shareholders at the forthcoming Annual General Meeting,

the single tier final dividend will be paid on 20 July 2023 to shareholders registered at the close of business on 21 June 2023. The dividend payout ratio for the year is approximately 101%.

EXCITING CONSUMER CAMPAIGNS

During the year, we focused on driving premium growth, investing in our core brands and innovations to excite our consumers. The Heineken® brand, known for its world-class activations, created fresh experiences that helped built direct connections with customers and consumers. Through the Heineken® Hotel Takeover, held over two weekends in Kuala Lumpur, we invited consumers on a journey that redefined and elevated music, art, wellness and culinary experiences. We also teamed up with world-famous electropop duo The Chainsmokers to launch Heineken® “Refresh Your Music, Refresh Your Nights” where fans of different cultures, tribes, and music preferences came together to expand their music tastes. The concert, held in Genting Highlands, gave a platform to local artists who featured alongside The Chainsmokers. During the year, we also launched the Heineken® brand in BLADE, a revolutionary ‘Plug and Pour’ professional draught system that serves freshly poured pints of Heineken® beer on any surface. The mini-draught beer machine is now available on a rental basis exclusively on HEINEKEN Malaysia’s e-Commerce platform Drinkies.



After two years of hosting the Tiger Street Food Festival virtually, the iconic street food festival returned as an on-ground event, bringing consumers together to celebrate the best of Malaysian street food, paired with Malaysia’s No. 1 Beer, Tiger.”

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2022 was remarkably special for Tiger Beer as it was the Lunar Year of the Tiger. To usher in the festive period with a renewed sense of hope, we encouraged consumers to uncage their inner tiger and make 2022 their year to go all out to pursue their dreams and goals. Tiger Beer lined up an abundance of activities and promotions in conjunction with the festive season and launched an NFT collection that was sold out. After two years of hosting the Tiger Street Food Festival virtually, the iconic street food festival returned as an on-ground event, bringing consumers together to celebrate the best of Malaysian street food, paired with Malaysia's No. 1 Beer, Tiger. In conjunction with the year-end football season, we hosted a series of epic live viewing parties that brought thousands of fans together in the Cheers to the Bold campaign, encouraging fans to boldly live their dreams and defy the odds.

Catering for shifting preferences for more refreshing and less bitter flavours, our Tiger Crystal is a beer brewed specifically for the tropical heat. During the year, we encouraged consumers to discover new passions through the the Tiger Crystal Fire Starter, featuring AR facial recognition and personality assessment that paired fans to passions, such as bouldering, rollerblading, dancing, jump rope, or freestyle football. Through the Tiger Crystal Heat Exchange activation, we invited consumers to join forces to turn up the heat by participating in various physical challenges, which contributed energy to fire up a giant thermometer and unlock free Tiger Crystal for participants.

After two long years and many missed celebrations, the Guinness St. Patrick's Festival 2022 signaled the return of good times. Most importantly, it meant bringing friends and family back together to celebrate in true St. Patrick's spirit. To celebrate coming back together to a bar, Guinness organised an array of activities, entertainment and exclusive giveaways during at selected restaurants and bars.

We launched a Guinness innovation – Guinness Draught in a Can, for stout lovers to enjoy their favourite draught in the comfort of their own home. This latest addition to HEINEKEN Malaysia's portfolio, offers the smooth and creamy texture of a pub-poured pint in a can and features the ingenious widget that activates a surge of bubbles upon the opening of the can, creating a smooth, creamy stout.

Our premium wheat beer born in the Alps, Edelweiss, held its first-ever Chalet Edelweiss Unwind, an outdoor experience that allows consumers to disconnect from their hectic city lives and discover nature alongside glamping and a series of exciting activities together with music performances. A premium experience with a myriad of activities and amenities, campers got to spend the night under the sky of Genting Highlands and take part in scheduled morning yoga and night campfires.

I am pleased to share that our brands continued to be recognised by consumers amongst Malaysia's most trusted and preferred brands at the Putra Brand Awards 2022. Heineken® and Tiger won Gold, and Guinness took home a Bronze award. The triple win brings HEINEKEN Malaysia's total awards tally at Putra Brand Awards to 39 awards since 2010.

“
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BREW A BETTER WORLD

Alongside our efforts to deliver balanced growth, we are committed to create sustainable value for our stakeholders in a responsible way. HEINEKEN's Brew a Better World sustainability strategy sets us on three important pathways:



Together in this annual report, our ESG Review section comprehensively covers our initiatives and progress against our commitments as we continue integrating sustainability across our business. This year, we refreshed our materiality assessment to prioritise key material matters in contrast against our management of key business risks as well as environmental and climate risks. Our enhanced disclosures this year are aligned against Bursa Malaysia's sustainability reporting requirements, the Global Reporting Initiative standards, the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and FTSE4Good Bursa Malaysia Index. Governed by a Sustainability Policy and operationalised through the Group's Sustainability Committee which reports progress of actions in our roadmap on a quarterly basis to the Management Team and Board of Directors, I am pleased to share that we have taken significant steps to strengthen our sustainability practice. Here are the key highlights of our 2022 sustainability achievements, which are described in greater detail in the ESG Review section.

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ENVIRONMENTAL SUSTAINABILITY

-49%

absolute carbon emissions
in production vs 2018 baseline

100%

renewable electricity
since March 2022

Zero

waste to landfill since 2017

-20%

water consumption
vs 2014 baseline

Balanced

203%

water used
in our products



SOCIAL SUSTAINABILITY

43%

women in Board of Directors

63%

women in Management Team

Zero

fatal accidents and serious injuries

80%

of people managers
trained in inclusive leadership

2

social impact initiatives



RESPONSIBLE CONSUMPTION

>10%

of Heineken® brand media
spend on promoting responsible
consumption

**When You Drive,
Never Drink Campaign**

3,000

consumer pledges,

100

industry pledges

10,000

Grab e-hailing promo
codes during year-end festive
campaign



We are pleased to report that we are making good progress against our Brew a Better World commitments, nevertheless we continue focusing on exploring potential new innovations, partnerships and solutions to help us accelerate the organisation towards reaching these bold targets sooner.



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MANAGING OUR RISKS

Our approach to risk management is detailed in our Statement on Risk Management and Internal Control on pages 101 to 107. The following table contains a general description of different areas of risks and actions undertaken by Management during the year:

Rising Input Cost	Supply Chain Disruptions	Growing Conservatism	Cyber Security
<p>Through our EverGreen strategy, our Fund the Growth priority ensures we practice disciplined cost management with an aim to unlock efficiencies wherever possible. We mitigate this risk further by leveraging the scale and capabilities of HEINEKEN's global procurement.</p>	<p>By modernising our facilities and leveraging digital and technology, we improve the efficiency of our brewery to mitigate the risk of wider supply chain constraints. We continue engaging our network of third party logistics providers and distributors to ensure we are able to respond to unexpected challenges.</p>	<p>We engage the Government to create better understanding of our industry. We ensure strict compliance with our Responsible Marketing Code and market our brands with utmost respect towards cultural sensitivities both local and global. We ensure that our commercial communications are directed towards consumers who are above 21 years old and non-Muslim only.</p>	<p>We continually train our people to be aware and capable in protecting our business against cyber threats. We performed a cyber crisis preparedness exercise during the year and implemented a framework on cyber security.</p>



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OUR OUTLOOK

We witnessed encouraging recovery in business performance in the last quarters of 2022 following the full re-opening of on-trade business. However, the Group expects the business environment in 2023 to remain challenging given the continued pressure from global supply chain disruptions, recessionary pressures from leading economies, rising input costs, currency fluctuation and rising inflation that could impact consumer purchasing power. We will remain responsive to the volatile business environment and new market realities, with a focus on delivering our EverGreen strategy, in order to continue to invest behind our brands and capabilities, as well as future-proof the business to unlock efficiencies and reinvest in growth drivers. We welcome the stance taken by the Government not to increase the excise duties on beer in the latest Budget 2023 review announced in February 2023, as any hike in excise rates will further fuel illicit alcohol demand. Illegal trade and smuggling have caused the Government to incur tax revenue losses and pose health hazards to consumers with unregulated illicit alcohol. That is why HEINEKEN Malaysia remains committed to supporting and working closely with the authorities to address the issue of illicit alcohol holistically.

EVERGREEN



DRIVE SUPERIOR GROWTH

With consumer centricity, shape & lead premium category. Continue investing behind our brands.

FUND THE GROWTH

Cost & Value to drive efficiency, enabling reinvestments into our brands and business.

RAISE THE BAR ON SUSTAINABILITY & RESPONSIBILITY

Deliver on our ambition to become net zero carbon in production by 2030 and the full value chain by 2040.

BECOME THE BEST CONNECTED BREWER

Accelerate digital & technology to create a Unified Customer Ecosystem with a customer & consumer-first approach.

UNLOCK THE FULL POTENTIAL OF OUR PEOPLE

Promote a high-performance culture that boosts our strategic capabilities.



ACKNOWLEDGEMENTS

I would like to welcome Willemijn Sneep as our new Marketing Director. She joined the Management Team in November 2022 from HEINEKEN's business in Australia, replacing Pablo Chabot who has moved to HEINEKEN's operating company in Germany. I put on record my sincere appreciation for Pablo for his contributions and wish him the best. I must also thank the Board of Directors and the Regional Leadership Team in the APAC region for their wise counsel as we navigated through the challenging year together.

I take this opportunity to also say a big thank you to our shareholders, suppliers, distributors, customers, consumers for their amazing trust and support during the year. To our One Strong Winning Team of employees who demonstrated great resilience and unbending resolve to emerge stronger together, I look forward to continue scaling greater heights, driven by our purpose – to Brew the Joy of True Togetherness to Inspire a Better World.

Thank you.

Roland Bala
Managing Director
20 March 2023