HEINEKEN

58th ANNUAL GENERAL MEETING
12 May 2022

QUESTIONS RAISED BY MINORITY SHAREHOLDERS WATCH GROUP

OPERATIONAL & FINANCIAL MATTERS

1. Compared with pre-pandemic levels, Heineken Malaysia's revenue of RM1.98 billion and net profit of RM245.68 million was still below the 2019 levels where revenue amounted to RM2.32 billion and net profit was RM312.97 million. This seems to suggest that the business is still under the recovery phase (page 21 of Annual Report 2021).

   a) When does the Group expect to see its financial performance rebound to pre-pandemic level?

   b) What would be the catalyst for better top-line and bottom-line performance this year? Will the revenue be driven by cost-push or demand-pull factor?

   c) The Ministry of Health announced that pubs and nightclubs will be allowed to reopen as the National Security Council's (NSC) Negative List, which prohibited certain activities and businesses during the Covid-19 pandemic, will be abolished starting 15 May.

   What would be the impact of this announcement to Heineken Malaysia's business? Are there fewer pubs or nightclubs in the market after two years of restriction on business? If so, would Heineken Malaysia see a slower rebound in sales from this segment after the opening?

   HMB's response

   a) Following the reopening of international borders, and further relaxation of SOPs domestically and removal of clubs and entertainment from negative list, we are cautiously optimistic that demand for our products would normalize. However, we remain very concern with escalating input cost, high inflationary pressures and supply chain constraints following the Ukraine / Russia conflict. The Group will continue to deliver its strategies by adapting to new external dynamics and continue to work closely with trade partners. The Group is hopeful that the financial performance will further recover after two challenging years. We do not share any specific prospect on volume and/or financial performance.

   b) The Group's strategy and focus in year 2022 will be on driving sustainable business growth and driving premiumisation and innovations agenda. Furthermore, we will support on-trade recovery by enhancing our customer service, leveraging our new route to consumers and digital and technology solutions. The Group will also continue to drive profitability by implementing new cost & value initiatives. Our people and sustainability agenda are also enablers to ensure sustainable long term growth.

   C) We thank the government for opening-up the entertainment and club businesses as of 15th May. Many of these trade partners have suffered a huge financial set back during those period of lockdowns, however many of them have also adopted to the new norm and have even changed their business models. The reopening will allow us to accelerate the recovery for the on-trade businesses.

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2. Heineken Malaysia's revenue rose by 12.3% from RM1.76 billion in FY2020 to RM1.98 billion in FY2021 while cost of sales increased by 7.4% from RM1.28 billion to RM1.38 billion (page 80 of AR2021). This has resulted in higher gross profit margin of 30.3% in FY 2021 from 27.2% in FY 2020 to 30.3% in FY 2021.

   a) How has the Group managed to optimise its cost of sales? Is the favourable cost of sales sustainable in FY 2022?

   b) The higher revenue was mainly due to improved revenue management and improved agility in managing the supply chain that helped mitigate the adverse impacts of the pause in the brewery operations (page 21 of AR 2021).

      How specifically has the revenue management and supply chain management translated to better revenue? Please provide examples, where applicable.

HMB's response

a) The Group practices highly disciplined cost management by implementing amongst others robust cost & value initiatives, a flexible supplier base and by having an efficient supply chain operation. The Group also benefits from hedging and alignment with Heineken Global Procurement to strategically source and leverage on Heineken Global Procurement's scale to obtain favorable prices.

b) The details are commercially sensitive. The rising of input costs and supply disruptions that many businesses are facing, impacts the cost of sales of the Group significantly. However, we will continue to implement revenue management initiatives, keeping a tight rein on cost structures and review our pricings where necessary to mitigate impact of rising input costs.

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3. To protect its business, and adapt to the new realities and accelerate recovery, Heineken Malaysia front-loaded its cost and value initiatives by right-sizing its cost base and the organisation (page 21 of AR2021).

   Please elaborate on how Heineken Malaysia front-loaded its cost and value initiatives and where applicable, please state the KPIs and achievements.

HMB's response

Since the Covid crisis, the Group has implemented various cost saving and optimization initiatives designed to enable recovery whilst improving operational efficiency to protect profitability. These include organisational restructuring to right-size our cost base and organisation, optimise our working capital and accelerate our e-commerce business as we continued supporting our key stakeholders with pragmatic commercial initiatives to meet new business conditions.

Whilst we are unable to disclose the details of the savings/benefits derived from above efforts, we are pleased to share that these efforts had brought value and contributed favourably to the Group performance for FY2021. Management will continue to inculcate a sustainable cost-conscious culture across the organisation and explore new saving opportunities to sustain profit growth in FY2022.

4. Under Budget 2022, the Malaysian government had announced an one-off Prosperity Tax on companies with chargeable income over RM100 million for the year of assessment 2022.

Under this tax regime, companies would be levied at a tax rate of 33%, instead of the blanket 24% rate previously, for chargeable income over RM100 million.

What would be the earnings impact of the one-off windfall tax on Heineken Malaysia in FY2022?

HMB's response

The Prosperity Tax is a one-off incremental tax imposed for year of assessment 2022. We expect the Group via its subsidiary to be impacted by this one-off incremental tax. However, we are unable to provide any estimate of the impact as we do not publish our income projections.

5. In FY2020, a provision of RM14.38 million was made relating to a restructuring exercise announced by Heineken N.V., ultimate holding corporation of Heineken Malaysia. This was following a review of the effectiveness and efficiency of the organisations at Head Office, regional offices and each of its local operations (page 118 of AR2021).

What are the aspects of the restructuring exercise implemented at Heineken Malaysia level? Does the exercise involve retrenchment of staff? How would the restructuring exercise improve Heineken Malaysia's efficiency and effectiveness?

HMB's response

After a difficult 2020 due to the COVID-19 pandemic, we went into 2021 hopeful of continued recovery. The prolonged restrictions and lockdowns had adversely impacted the Group's business performance in the previous year and dampened economic recovery in the country. To protect our business, adapt to the new realities and accelerate recovery, we front-loaded our cost and value initiatives by right-sizing our cost base and the organisation. These bold moves were crucial to help the Group navigate the crisis whilst building for a stronger future.

While it was difficult to right size the organisation, the Company ensured that outgoing employees were well supported including those who were seeking different paths, be it to seek employment, start as an entrepreneur or retire, besides a fair compensation package. The exercise was handled with care and transparency. This was well received by employees, which helped to build internal trust and a stronger sense to drive results. HEINEKEN Malaysia saw improvement in our climate survey results with better employee engagement score as well as our financial performance. This was possible due to bold moves we took to right size our cost base.

SUSTAINABILITY MATTERS

1. Amongst Heineken Malaysia's key commitments are to reach net zero carbon emissions in production by 2030 and across the value chain by 2040. In 2021, it had reduced 15.7% of carbon emissions compared with 2018. It would also continue exploring available innovations that will reduce its reliance on non-renewable sources for energy generation (page 23 of AR 2021).

   a) Is the Group on track to attain net zero carbon emissions in production by 2030? What would be the available lever for Heineken Malaysia to achieve the net zero carbon emissions target? Would the Company resort to carbon offset (by purchasing carbon credit) to achieve the target?

   b) What is the breakdown of Scope 1, 2 and 3 emissions of Heineken Malaysia's operation?

   c) Currently, what percentage of its energy generation is from renewable sources?

   HMB's response

   a) Yes, the Group is on track to attain net zero carbon emissions in production by 2030. We have a roadmap to de-carbonize our production and continue to make consistent progress as reported in the annual report. To further update, in March 2022, we subscribed for renewable electricity from TNB through the Green Electricity Tariff (GET) programme as part of the Malaysia Renewable Energy Certificates (mREC). As a result of this, 75% of our electricity consumption for 2022 will be renewable electricity and by 2023, 100% of our electricity consumption will be renewable energy. We are also working on a few projects to convert our thermal energy to renewable thermal energy as well as driving energy efficiency projects.

   b) We will be working with HEINEKEN Global to evaluate and de-carbonize the wider value chain (Scope 3) in Malaysia from 2023. Based on present estimates, Scope 1 & 2 emissions represent 10% of our total carbon footprint globally whilst Scope 3 emissions represent 90% of HEINEKEN's global carbon footprint. Scope 1 & 2 represent emissions as a result of our direct production activities whilst Scope 3 emissions are indirect emissions from activities beyond production including agriculture, manufacture of packaging materials, and third-party logistics. We are guided by the following definitions in measuring our carbon emissions:

Scope 1	Own production of electricity and thermal energy (heat)
Scope 2	Procuring electricity and thermal energy from 3rd parties
Scope 3	All other indirect emissions that occur in a company's value chain

   c) As of March 2022, 100% of our electricity consumption at our Sungei Way Brewery in Petaling Jaya is from renewable sources via GET. Accounting for the period before GET was activated, we estimate that 75% of our electricity consumption in 2022 will be from renewable sources. As for thermal energy, currently less than 5% are from renewable sources, i.e. biogas recovery. We continue to assess other sources of bioenergy to reduce reliance on natural gas for generation of thermal energy in future years.

CORPORATE GOVERNANCE MATTERS

1) In FY2021, four reports were received via the HEINEKEN Speak Up channel and investigated by the internal audit (IA) function. The nature of these Speak Up reports were centered around non-compliance with the Group's policies and procedures (page 52 of AR20210).

   Which are the policies and/or procedures that were not complied with?

   HMB's response

   Of the four Speak Up reports, two were on non-compliance with the Company's Policy on Conflict of Interest and the remaining cases were in relation to Fraud and Recording of Inventory. Corrective and preventive actions including disciplinary measures as well as process and control improvements were taken by the Company subsequent to the investigations by the Internal Audit Department. None of these cases has caused any material financial impact to the Company.

   We will continue to educate and encourage our employees to Speak Up as we are confident that this is an effective mechanism to protect the Company against any misconduct and non-compliance with rules and policies.

2) Heineken Malaysia has departed from Practice 5.2 and Practice 5.3 of the Malaysian Code on Corporate Governance.

   a) Practice 5.2 states at least half of the board comprises independent directors. At the same time, the board comprises a majority independent directors for Large Companies.

      Currently, the Board of Heineken Malaysia consists of three independent directors (IDs), three non-independent non-executive director and an executive director.

      Heineken Malaysia explained that based on the 51% stake held by Heineken N.V. via its wholly owned subsidiary, GAPL Pte Ltd, it is in its best interest and that of its stakeholders that the Board includes a fair and adequate representation of the major shareholders. This is to fully leverage the experience of the HEINEKEN Group and to ensure focus on long-term value creation.

      IDs are acting in the best interest of the Company and bringing unbiased opinion in deliberation of board matters. How would a board that comprises mainly IDs derail the objective of Heineken Malaysia leveraging on the experience of HEINEKEN Group and creating long term value?

      Does the Board intend to comply with Practice 5.2?

      HMB's response

      The Board acknowledges the recommendation under Practice 5.2 that suggests a "Large Company" such as HEINEKEN Malaysia to have a majority Independent Directors on the Board and recognises that the primary responsibility of Independent Directors is to protect the interests of minority shareholders and other stakeholders.

Currently, the Board comprises three (3) Independent Directors and three (3) nominee Directors representing the major shareholder who are all Non-Executive Directors; and is supported by a Managing Director nominated by the major shareholder. This complies with the Main Market Listing Requirements of Bursa Malaysia of at least 2 or 1/3 of the Board being Independent Directors. The Board has regarded the current Board composition to be effective in decision making where independent deliberation is still being upheld with the presence of the Independent Directors.

The Non-Executive nominee Directors play an important role in supporting the Board in discharging its oversight function. They have extensive knowledge of the industry and experience from working in the HEINEKEN Group across Asia Pacific which enable them to provide in-depth insights and learnings from regional and global point of view towards the Board's discussion, particularly on the Group's strategic direction and business strategy. Their views are usually aligned to safeguard the interest of the Company's shareholders as a whole without compromising the independence and objective judgement in Board deliberation. The Board is often able to leverage on their tacit knowledge, accumulated experience and intuition in making key business decisions.

To further ensure independent and objective judgement in Board deliberations, all Independent Directors of the Company have no relationships directly or indirectly with other Board Members or the major shareholder or to persons connected to them. The Independent Directors are of high calibre with diversified background and wide skills and in-depth experience in boardroom and leadership positions. They are able to provide check and balance to the Board with their unbiased and independent views as they participate actively and hold robust discussions and deliberations during Board and Board Committees meetings whilst nominee Directors are required to abstain from deliberation and decisions on matters which the major shareholder has interests. This has to a certain extent met the intended outcome despite not meeting the required numbers in its expected form. In addition, the assessment on independence of the Independent Directors is conducted on an annual basis based on the criteria of independence in the Bursa Malaysia's Listing Requirements and other criteria, in particular their abilities to exercise their objective and independent judgement to act in the best interests of the Company.

Given the above circumstance, the Board would like to maintain its current composition.

b) Practice 5.3 states that the tenure of an ID does not exceed a cumulative term limit of nine years. Upon completion of the nine years, an ID may continue to serve on the board as a non-independent director.

In the upcoming AGM, Heineken Malaysia will seek shareholders' approval via a two-tier voting process to retain Datin Ngiam Pick Ngoh, Linda as an ID of the Company. Up to the date of AGM on 12 May 2022, Datin Ngiam would have served the Board for 9 years 5 months.

At the same time, Heineken Malaysia did not adopt Practice 5.4 – Step Up that requires a board to have a policy which limits the tenure of its IDs to nine years without further extension.

What is Heineken Malaysia's policy on the tenure limit of IDs? Does the Company intend to apply the relevant practices in the MCCG?

HMB's response

The provision in the Board Charter states that the tenure of an independent Director should not exceed a cumulative term of nine (9) years. Upon completion of the nine (9) years term, an Independent Director may continue to serve on the Board subject to the Directors' re-designation as a Non-Independent Director. However, in the event that the Board intends to retain a person who has served in the capacity as an Independent Director for more than nine (9) years, the Board must justify and seek shareholders' approval.

Datin Linda Ngiam, whose tenure as Independent Director of the Company had exceeded the 9-year mark since December 2021. At the AGM held in May 2021, the Company had obtained prior Shareholders' approval to allow her to continue as an Independent Director until the conclusion of the 58th AGM with valid justifications provided to shareholders.

Early this year, the Board had evaluated the performance, contributions and independence of Datin Linda Ngiam and confirmed that she has fulfilled the Independent Director's criteria in that she has been objective and independent in participating in the deliberations and decision-making of the Board and the Board Committees. She had also demonstrated her diligence and commitment in carrying out her professional duties in the interest of the Company and shareholders. The length of her service on the Board does not interfere with her exercise of independent judgement. The Board has accordingly recommended her to continue as Independent Director of the Company and is seeking shareholders' approval via a 2-tier voting process at the 58th AGM.

The Board has to balance the need to continue with Directors who are well-verse and have good understanding of the Group's business and fresh perspective which new candidates may bring. The Board is of the view that in ensuring continuity, stability and orderly succession in the Board and/or Board Committees (if applicable), there is no immediate plan to adopt the 9-year term limit for Independent Director. The Board will continue to evaluate and assess the above approach, taking into consideration the skillset and the contributions of the Director concerned and his/her ability to continue to act independently in the best interest of the Company with a view to ensure the Board is able to function effectively.

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