



HEINEKEN MALAYSIA BERHAD

59th ANNUAL GENERAL MEETING

12 May 2023

QUESTIONS RAISED BY MINORITY SHAREHOLDERS WATCH GROUP

OPERATIONAL & FINANCIAL MATTERS

1. Compared to FY2021, 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. (page 21 of AR 2022) What is the percentage of revenue contribution from premium portfolio?

HMB's response

We are unable to share the sales performance by brands or channels as this is commercially sensitive. Nevertheless, we are committed to winning in the marketplace by investing in our core brands and innovations that have scale whilst improving our execution and route to market. We are pleased that our premium portfolio outperformed, led by Heineken.

2. 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. (page 21 of AR 2022)
 - (a) Is the strong growth in revenue and PBT sustainable in FY2023?
 - (b) What are the major areas in cost management that contributed to the significantly better PBT (provide data, where applicable)?

HMB's response

- (a) First and foremost, we are a growth Company and this can be seen from our track record all these years. In 2022, following re-opening of the economy, we saw strong growth recovery of our business that surpassed 2019 pre-pandemic level.

For this year, few things:-

- We have a shorter CNY sell in period by 1 week.
- Volatility and uncertainties in the macro-economics – recessionary pressures, inflationary pressure, currency fluctuations all impacts consumer sentiments and purchasing power.

We will focus on delivering our EverGreen Strategy, investing behind our brands, drive cost efficiencies and strengthening capabilities to future-proof our business.

- (b) Our Group PBT increased by 85% as compared to FY2021. This is mainly contributed by strong post-COVID recovery, gradual recovery for the on-trade business and improved revenue management. We are not able to share our cost management initiatives in detail. However, we can disclose that we constantly drive efficiency through cost and value initiatives which is in line with our EverGreen strategy. Additionally, FY2021 was a weaker comparison due to brewery lockdown in the month of June 2021.

3. 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. (page 21 of AR 2022)
 - (a) Which areas of operations or processes have been enhanced by digitalisation and technology? What are the estimated cost savings, if any?
 - (b) What is the expected capital expenditure for FY 2023? Will there be any investment in increasing production capacity, and if so, by what percentage increase in capacity?

HMB's response

- (a) We have invested heavily in digital and technology as part of our EverGreen Strategy to become the best-connected brewer. Our operations are highly automated and we accelerated digital & technology to create an ecosystem with a customer & consumer-first approach. We invested in strategic platforms and channels that will be crucial for the future successes of our business. E-commerce is a key platform.
- (b) The main bulk of our capital expenditure are into our capacity/production expansion. We will continue to invest in upgrading our brewery in 2023 and after a peak investment in 2022 the capital investments are expected to normalize from FY2023 onwards.

CORPORATE GOVERNANCE AND SUSTAINABILITY MATTERS

1. Practice 5.2 - At least half of the board comprises independent directors. For Large Companies, the board comprises a majority independent directors.

Heineken's response: Departure. The Board has seven (7) Directors, led by an Independent Non-Executive Chairman, and supported by a Managing Director as well as five (5) Non-Executive Directors. Three (3) of the Non-Executive Directors (including the Chairman) are Independent Directors, representing 43% of the Board whilst the remaining three (3) Non-Executive Directors are Non Independent Directors. The Company intends to maintain its current composition. The Board has not ascertained any time frame to adopt this practice.

MSWG's comments: Being a large company, Heineken's Board not only does not comprise a majority of independent directors; only 43% of the Board comprise independent directors.

HMB's response

The Board acknowledges the recommended practice to have a majority Independent Directors on the Board. As explained in our CG Report, the Board would like to maintain its current composition as the Board found that the current composition to be effective in decision making where independent deliberation is still being upheld with the presence of the Independent Directors.

The Non-Independent 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.

Furthermore, the Independent Directors do not have any relationships directly or indirectly with other Board Members or the major shareholder or to persons connected to them. 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 meetings whilst nominee Directors will 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.

2. HEINEKEN continued its practice of recycling or upcycling 100% of its by-products and waste from production. Indeed, it is proud of achieving Zero Waste to Landfill since 2017. (page 6 of AR 2022).

What are the major by-products and waste that the Company recycles or upcycles 100%?

What is the estimated cost savings?

HMB's response

Since 2017, we have practised zero waste to landfill ensuring all by-product wastes from production are recycled and upcycled. Our wastes are divided into two categories; organic waste which includes spent grains, spent yeast, rejected malt and spent kieselguhr and inorganic waste which comprises glass, metals, plastic scraps, cardboard cartons and damaged aluminium cans.

In 2022, we generated a total of 35,423 tonnes of waste and our recycling activities generated a total of RM1.9 million in revenue for the Company. The details including weight and categories of waste are reported on pages 58-59 of our Annual Report 2022.

3. The Company brews beer and makes cider from natural ingredients. By supporting sustainable farming, 100% of its main ingredients (barley and hops) will come from sustainable sources by 2030. (page 14 of AR 2022).

What percentage of main ingredients currently come from sustainable sources?

From which countries are barley and hops mainly sourced from? Has the Russia- Ukraine war affected its supply chain? How does the Company mitigate the problem?

HMB's response

Our main ingredients (barley and hops) are from Europe, Australia and the United States and are sourced by HEINEKEN Global Procurement.

HEINEKEN globally bases its standards for sourcing sustainably cultivated crops on the globally recognised Sustainable Agriculture Initiative Platform (SAI) principles. This requires the efficient production of safe, high-quality agricultural products in a way that protects and improves the natural environment, enhances the social and economic conditions of farmers, their employees and local communities, and safeguards the health and welfare of farmed species.

Global geopolitical conflicts do have an impact on supply chain disruptions and increases in costs, particularly the energy price hikes in Europe. We leverage the scale and capabilities of HEINEKEN Global Procurement to mitigate the impact of such cost increases.

4. In its efforts to mitigate and adapt to climate change, the Group has set high standards by committing to achieve net zero carbon emissions across its value chain by 2040 with an intermediate goal to achieve net zero carbon emissions in production and 30% reduction in the value chain by 2030. (page 54 of AR 2022).

What have been the achievements and is the Company on track to achieve its targets?

HMB's response

We have a commitment to reach net zero carbon emissions in Production (Scope 1 & 2) by 2030 and the wider value chain (Scope 3) by 2040. Our net zero production roadmap puts us on course to reach our targets.

In 2022, we transitioned to 100% renewable electricity through Tenaga National Berhad's Green Electricity Tariff programme. Our focus is also on improving energy efficiency and in 2022 our brewery upgrade initiatives contributed to this improvement. As a result, we have reduced carbon emissions in production by 49% vs our 2018 baseline.

Our focus in the years ahead will be to decarbonise our thermal energy generation, which is presently reliant on natural gas boilers. Planned upgrades for our wastewater treatment plant will also enable us to improve biogas recovery for thermal generation. Last but not least, our on-site Solar installation is on track for completion by Q4 2023, and is estimated to replace our electricity consumption by up to 15% annually.

We are working with HEINEKEN Global on the HEINEKEN Carbon Footprint project which will help determine our Scope 3 baseline in the areas of Agriculture, Packaging, Logistics, and Cooling. This will form the basis for the design of relevant local initiatives to help address Scope 3 emissions in future years.

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