HEINEKEN MALAYSIA BERHAD

(Company No. 5350-X)
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2018

The Board of Directors of Heineken Malaysia Berhad ("the Company") wishes to announce the unaudited results of the Group for the quarter ended 31 March 2018.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		INDIVIDUAL PERIOD 3 MONTHS ENDED		% Change +/(-)	CUMULATIVE PERIOD 3 MONTHS ENDED		% Change +/(-)
		31/03/2018	31/3/2017*		31/03/2018	31/03/2017*	
		RM'000	RM'000		RM'000	RM'000	
1.	Revenue	433,813	392,603	11%	433,813	392,603	11%
2.	Operating expenses	(368,399)	(327,413)		(368,399)	(327,413)	
3.	Operating profit	**65,414**	**65,190**	0.3%	**65,414**	**65,190**	0.3%
4.	Interest income/(expense)	(1,261)	(706)		(1,261)	(706)	
5.	Profit before tax	64,153	64,484	-0.5%	64,153	64,484	-0.5%
6.	Taxation	(15,397)	(15,511)		(15,397)	(15,511)	
7.	Net profit for the period	48,756	48,973	-0.4%	48,756	48,973	-0.4%
8.	Profit attributable to owners of the Company	48,756	48,973		48,756	48,973	
9.	Total comprehensive income attributable to owners of the Company	48,756	48,973		48,756	48,973	
10.	Earnings per share :						
(a)	Basic (based on 302,098,000 stock units) (sen)	16.14	16.21		16.14	16.21	
(b)	Fully diluted	N/A	N/A		N/A	N/A	

*The Group has adopted the Malaysian Financial Reporting Standard ("MFRS") 15 using the retrospective approach which requires the restatement of relevant comparative figures for the corresponding period in 2017 presented herein as explained under Note 1.

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Group's Annual Audited Financial Statements for year ended 31 December 2017

HEINEKEN MALAYSIA BERHAD
(Company No. 5350-X)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	UNAUDITED AS AT 31 March 2018 RM'000	AUDITED AS AT 31 December 2017 RM'000
Non-current assets		
Property, plant and equipment	236,822	241,837
Intangible assets	21,738	23,238
Deferred tax assets	-	1,605
Other receivables	18,964	19,085
	277,524	285,765
Current assets		
Inventories	64,038	66,899
Trade and other receivables	394,280	483,885
Current tax assets	1,258	19,926
Cash and cash equivalents	15,317	11,305
	474,893	582,015
Current liabilities		
Trade and other payables	315,276	358,421
Current tax liabilities	-	18,369
Borrowings	-	101,000
	315,276	477,790
Net current assets	159,617	104,225
	437,141	389,990
Financed by:		
Capital and reserves		
Share capital	151,049	151,049
Reserves		
Retained earnings	258,222	209,466
Shareholders' funds	409,271	360,515
Non-current liabilities		
Deferred tax liabilities	27,870	29,475
	27,870	29,475
	437,141	389,990
Net Assets per share attributable to owners of the Company (RM)	1.35	1.19

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Group's Annual Audited Financial Statements for the year ended 31 December 2017.

HEINEKEN MALAYSIA BERHAD
(Company No. 5350-X)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE 3 MONTHS ENDED 31 MARCH 2018

	3 MONTHS ENDED 31 March 2018 RM'000	3 MONTHS ENDED 31 March 2017 RM'000
Cash flows from operating activities		
Profit before tax	64,153	64,484
Adjustments for:		
Amortisation of intangible assets	1,587	4,121
Depreciation of property, plant and equipment	9,511	8,812
(Gain)/Loss on disposal of property, plant and equipment	(180)	2,325
Amortisation of prepaid contractual promotion expenses	22,005	9,649
Interest expense	1,451	963
Interest Income	(190)	(257)
Unrealised foreign exchange differences	15	(18)
Operating profit before changes in working capital	98,352	90,079
Movements in working capital		
Inventories	2,861	15,371
Receivables, deposits and prepayment	67,719	66,581
Payables and accruals	(43,158)	(48,231)
Cash generated from operations	125,774	123,800
Tax paid	(15,098)	(23,576)
Interest paid	(1,451)	(963)
Net cash from operating activities	109,225	99,261
Cash flows from investing activities		
Acquisition of property, plant and equipment	(4,631)	(5,605)
Acquisition of intangible assets	(85)	(688)
Interest received	190	257
Proceeds from disposal of property, plant and equipment	313	195
Net cash used in investing activities	(4,213)	(5,841)
Cash flows from financing activity		
Dividends paid	-	-
Repayment of borrowings	(101,000)	(74,000)
Net cash used in financing activity	(101,000)	(74,000)
Net change in cash and cash equivalents	4,012	19,420
Cash and cash equivalents at beginning of year	11,305	4,045
Cash and cash equivalents at end of period	15,317	23,465

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Group's Annual Audited Financial Statements for the year ended 31 December 2017.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 3 MONTHS ENDED 31 MARCH 2018

	Attributable to equity holders of the Company			
	Non-Distributable		*Distributable*	
	Share Capital RM'000	Capital Reserve RM'000	Retained Earnings RM'000	Total RM'000
3 months ended **<u>31 March 2018</u>**				
Balance at 1 January 2018	151,049	-	209,466	360,515
Total comprehensive income for the period	-	-	48,756	48,756
Dividends paid / payable	-	-	-	-
Balance at 31 March 2018	**151,049**	**-**	**258,222**	**409,271**
3 months ended **<u>31 March 2017</u>**				
Balance at 1 January 2017	151,049	-	241,506	392,555
Total comprehensive income for the period	-	-	48,973	48,973
Dividends paid / payable	-	-	-	-
Balance at 31 March 2017	**151,049**	**-**	**290,479**	**441,528**

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Group's Annual Audited Financial Statements for the year ended 31 December 2017.

Notes:

1. Basis of Preparation

The interim financial report has been prepared in accordance with the requirements of Financial Reporting Standards ("FRS") 134 "Interim Financial Reporting" issued by the Malaysian Accounting Standards Board ("MASB") and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad and should be read in conjunction with the Group's annual audited financial statements as at and for the year ended 31 December 2017.

Effective 1 January 2018, the Group has adopted MFRS 9 "Financial Instruments" and MFRS 15 "Revenue from Contracts with Customers" as described below:

MFRS 9 Financial Instruments

MFRS 9 (IFRS 9 issued by IASB in November 2009) introduces new requirements for the classification and measurement of financial assets. MFRS 9 (IFRS 9 issued by IASB in October 2010) includes the requirements for the classification and measurement of financial liabilities and for derecognition, and in February 2016, the new requirements for general hedge accounting was issued by MASB. MFRS 9 is applicable for annual periods beginning on or after 1 January 2018.

The Directors have reviewed the impact of MFRS 9 as follows:

- With regard to the revised classification and measurement principles, MFRS 9 contains three classification categories of 'measured at amortised cost', 'fair value through other comprehensive income' ("FVTOCI") and 'fair value through profit and loss' ("FVTPL"). MFRS 9 eliminates the existing MFRS 139 categories of 'loans and receivables', 'held-to-maturity' and 'available-for-sale'. This new classification only means that the assets currently classified as available-for-sale will be measured at FVTOCI which constitutes no significant change, except for the accounting for accumulative gains or losses when equity securities measured at FVTOCI are disposed of. These cumulative gains or losses will not be recognised in the statement of profit or loss and other comprehensive income upon disposal but kept in the fair value reserve. The Group has no investments classified as held-to-maturity and the other categories involve no change in measurement for the Group.

- In relation to the impairment of financial assets, MFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under MFRS 139. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. With regard to the impact of the expected loss model on trade receivables and advances to customers, the Directors do not anticipate that the application of expected credit loss model of MFRS 9 will have a material financial impact to the Group's financial statements.

- The new hedging accounting requirements of MFRS 9 retain the three types of hedge accounting mechanisms currently available in MFRS 139. Under MFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about any entity's risk management activities have also been introduced. The Directors do not anticipate that the application of MFRS 9 hedge accounting requirements will have a material impact on the Group's financial statements.

1. **Basis of Preparation (Continued)**

MFRS 15 Revenue from Contracts with Customers

In May 2014, MFRS 15 was issued to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Subsequently, amendments to MFRS 15 were issued in April 2016 which provide clarifications on certain requirements of MFRS 15 and provide additional transitional relief upon implementing MFRS 15. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretation when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group applied the new standard effective from 1 January 2018. For implementation, the retrospective method is applied without any practical expedient, meaning prior period financial information are fully restated. The Directors anticipated that MFRS 15 will not impact the timing of revenue recognition. However, the amount of recognised revenue will be impacted by payments to customers and by the accounting for excise duties. The Group has evaluated the available practical expedients for application of the standard and concluded that these options have no significant impact on the Group's revenue recognition. The practical expedients will therefore not be applied.

MFRS 15 will impact the accounting for certain payments to customers, such as listing fees and marketing support expenses. Most of these payments are currently recorded as marketing expenses in the statement of profit or loss and other comprehensive income, but these payments will be considered as a reduction of revenue under MFRS 15. The payments to customers will continue to be recorded as marketing expenses only when these payments relate to a distinct service.

The MFRS 15 changes described above will have no impact on operating profit, net profit and earning per ordinary stock unit.

The impact of adopting MFRS 15 is as follows:

Statement of Comprehensive Income:

	Previously reported RM'000	Effect of MFRS 15 RM'000	Restated RM'000
For the quarter ended 31 March 2017			
Revenue	401,114	(8,511)	392,603
Operating Expenses	(335,924)	8,511	(327,413)

2. Significant Accounting Policies

The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2017.

3. Audit Report on Preceding Annual Financial Statements

The Group annual audited financial statements for the year ended 31 December 2017 were not qualified.

4. Seasonal or Cyclical Factors

The business operations of the Group are generally affected by festive seasons.

5. Exceptional Items

There were no exceptional items for the current financial quarter under review.

6. Changes in Estimates

There were no changes in estimates that have had any material effect on current financial quarter under review.

7. Debt and Equity Securities

There was no issuance, repayment of debt and equity securities for the current financial quarter under review, except for those as disclosed under Note 22.

8. Dividends Paid

No dividends were paid during the financial quarter ended 31 March 2018.

9. Segmental Reporting

No segmental analysis is prepared as the Group's business is primarily engaged in malt liquor brewing including production, packaging, marketing and distribution of its products principally in Malaysia. The Management Team of the Company reviews the financial information as a whole for decision making.

10. Property, Plant and Equipment Valuation

There were no changes in the valuation of property, plant and equipment for the current financial quarter under review.

11. Events Subsequent to the End of the Period

Between the end of the financial quarter under review and the date of this announcement, there has not been any item, transaction or event of a material and unusual nature which, in the opinion of the Directors is likely to affect substantially the results of the operations of the Group for the quarter ended 31 March 2018.

12. Changes in the Composition of the Group

There was no change to the composition of the Group during the financial period under review including business combination, acquisition or disposal of subsidiaries and long-term investments.

13. Changes in Contingent Liabilities or Contingent Assets

There were no material changes in contingent liabilities or contingent assets for the quarter ended 31 March 2018.

As announced by the Company on 3 September 2015, the Company received bills of demand dated 28 August 2015 from the Royal Malaysian Customs of Federal Territory of Kuala Lumpur ("Customs") demanding payment of additional excise duties and sales tax, totaling RM56.3 million.

The amounts in demand were:

- RM34,166,098.81 claimed under the Excise Act 1976, for the period of 28 August 2012 to 31 October 2013.
- RM22,159,456.40 claimed under the Sales Tax Act 1972, for the period of 1 July 2012 to 31 October 2013.

As reported in the Company's financial reports previously, Customs had imposed a new method of valuation for excise duty which came into effect on 1 November 2013. The abovementioned bills of demand are based on historic claims for excise and sales tax for the aforesaid periods. The Company's position is that all excise duties and sales tax for those periods had been paid by the Company based on valuations previously assessed and approved by Customs.

The Company maintains its previous position that the valuation method implemented on 1 November 2013 is not in line with international best practice on rules of valuation. The Company strongly believes that a retrospective application is unjustifiable.

The Company does not admit liability on the bills of demand made by Customs and will take appropriate measures to address this matter. As a result, no provision has been recognised.

The Company will make the necessary announcement on any new development relating to the above matter from time to time.

14. Capital Commitments

Capital commitments not provided for in the financial statements as at 31 March 2018 are as follows:

	RM'000
Property, plant and equipment	
Authorised and contracted for	25,962

15. Significant Related Party Transactions

As at the end of the quarter under review, the Group has entered into/or completed the following significant Related Party Transactions:

	Heineken N.V. and its related corporations RM'000
Purchase of beverage products, manufacturing and marketing materials	1,055
Sale of beverage products	-
Royalties paid/payable	11,139
Fees paid/payable for professional services relating to technical, marketing and other advisory support	2,696
Fees received/receivable for professional services relating to marketing support and other support services	1,375

All Related Party Transactions had been entered into in the ordinary course of business on normal commercial terms. These transactions are within the ambit of the general mandate approved by the shareholders of the Company on 13 April 2018.

16. Review of Performance

Quarter ended 31 March 2018 versus quarter ended 31 March 2017

	3 months ended 31 March 2018 RM'000	3 months ended 31 March 2017* RM'000	% Change +/(-)
Revenue	433,813	392,603	11%
Profit before tax	64,153	64,484	-0.5%

Group revenue grew by 11% as compared to the same quarter in 2017 mainly driven by higher sales volume from effective execution of commercial campaigns for the festive period, which resulted from a sharpened focus across the organisation to support the Company's growth ambition.

Group Profit Before Tax ("PBT") remains flat compared to the same quarter last year due to higher promotion costs as well as timing differences of commercial expenses. Furthermore, trade partners delayed purchases to early April 2018 in anticipation of the announced price adjustment, which took effect on 15 April 2018.

Quarter ended 31 March 2018 versus 31 December 2017

	3 months ended 31 March 2018 RM'000	3 months ended 31 December 2017* RM'000	% Change +/(-)
Revenue	433,813	596,914	-27%
Profit before tax	64,153	123,097	-48%

Gross revenue and PBT declined by 27% and 48% respectively, principally due to the year-end festive seasons and the earlier sell-in for Chinese New Year 2018 which took place in the 3 months ended 31 December 2017.

* The comparative figures were restated in line with the adoption of MFRS 15.

17. Prospects

Based on expectation of a strong performance of the Malaysian economy, the Group is cautiously optimistic in delivering a commendable performance in year 2018 through implementation of key strategies and cost savings initiatives to drive improvement in operational efficiencies and effectiveness. However, the Group continues to remain concerned over the threat of a significant contraband market.

18. Variance from Profit Forecast

No profit forecast was issued during the financial quarter under review.

19. Taxation

Taxation in respect of the current financial quarter comprises the following:

	3 months ended 31 March 2018 RM'000
Taxation	
Malaysian - current	15,397
Deferred taxation	
Malaysian - current	-
	15,397

The Group's effective tax rate for the current quarter under review is broadly in line with the statutory tax rate.

20. Status of Corporate Proposals

There were no corporate proposals which have not been completed at the date of this report.

21. Group Borrowings and Debt Securities

The Company fully repaid the revolving credit and trade financing amounted to RM101,000,000 during the quarter under review.

22. Financial Instruments

The outstanding derivatives at the end of the reporting period are as follows:

	Notional value RM'000	Fair Value RM'000	Loss arising from fair value changes RM'000
Forward foreign exchange contracts			
- Less than one year	7,069	6,927	142

22. Financial Instruments (Continued)

The above forward foreign exchange contracts were entered into by the Group to minimise its exposure to foreign currency risks as a result of transactions denominated in currencies other than its functional currency, arising from the normal business activities; in accordance with the Group's foreign currency hedging policy.

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Foreign currency differences arising on retranslation are recognised in comprehensive income, except for differences arising on the retranslation of a financial instrument designated as a hedge of currency risk, which is recognised in other comprehensive income.

There is minimal credit and market risk as the forward contracts are executed with the Group's relationship financial institutions, namely Citibank Berhad, BNP Paribas Berhad and HSBC Bank Malaysia Berhad. The Group is of the view that the possibility of non-performance by these financial institutions is remote on the basis of their financial strength.

23. Notes to the Statement of Comprehensive Income

	3 months ended 31 March 2018 RM'000
Depreciation and amortization	11,098
Loss on derivatives	142
Provision for and write-off of inventories	2,219

Other than the items highlighted above which have been included in the Consolidated Statement of Comprehensive Income, there were no impairment of assets nor profits/losses on any other items and sale of quoted securities, investments and properties included in the results for the quarter ended 31 March 2018.

24. Material Litigation

Neither the Company nor any of its subsidiaries is engaged in any material litigation either as plaintiff or as defendant as of the date of this report.

25. Dividend

The Board of Directors does not recommend any dividend in respect of the quarter ended 31 March 2018.

26. Earnings Per Share

(a) Basic Earnings Per Share

Basic earnings per share for the 3 months ended 31 March 2018 is calculated by dividing the net profit attributable to the shareholders of RM48,756,000 by the weighted average number of ordinary stock units outstanding as at 31 March 2018 of 302,098,000.

26. Earnings Per Share (Continued)

(b) Diluted Earnings Per Share

Not Applicable.

For and on Behalf of the Board

Hans Essaadi
Managing Director

11 May 2018