

## HOW WE CREATE VALUE FOR OUR PEOPLE

### GROWING OUR COMMUNITIES

#### DEVELOPMENT PROGRAMMES

##### Distributor Development Programme

Our distributors are responsible for supplying our products to our trade customers. We have developed a strategic roadmap to grow our distributors as best-in-class partners, supporting them via capability-building programmes to enhance their market responsiveness and reliability. We keep track of their performance via a service excellence scorecard, and incentivise good performance.

To optimise efficiencies in the distribution chain, in 2017 we streamlined our network to 33 distributors and five key accounts. Two rounds of engagement were held at which we explained our business strategy and key initiatives while seeking our distributors' input on issues that matter to them. To ensure their safety, we also share our LSR with them and have started reaching out to ensure safety at their warehouses.

##### Developing 'Star' Bartenders

We seek to ensure that our brews are perfectly served to our consumers each time they order our brands. Hence, we have been training bartenders from across the country on product knowledge and serving of two key brands – Heineken® and Guinness. Training is provided by HEINEKEN Malaysia's Star Academy, with competitive selections held nationwide to identify the best bartenders in the country.

Since 2014, we have organised the annual Heineken® Star Serve where bartenders are judged on their ability to pour the perfect pint of Heineken®. Prior to the contest, training sessions are organised. Opened to all outlets nationwide, Star Academy saw 600 entries and only eight finalists were shortlisted for the national finals after rigorous theoretical and practical assessments based on the five-step Heineken® Pouring Ritual. The five step ritual involves the rinse, the pour, the skim, the check and the serve – all of which are vital in creating the perfect glass of Heineken® draught beer.

In 2017, we launched a new contest – Guinness Perfect Pour. The perfect pint of Guinness takes 119.5 seconds to pour, and requires a unique two-part pour method. The glass is first filled up to three-quarters full, after which the 'surge' is allowed to settle before being topped up – giving the Guinness its iconic creamy head and velvety texture. From more than 1,000 participants evaluated across Malaysia, 11 of the best Guinness bartenders were selected for the national finals.



# 2

DISTRIBUTOR  
ENGAGEMENT  
SESSIONS



TRAININGS FOR  
FRONTLINE STAFF

600 participants  
in Heineken® Star Serve

1,000 participants  
in Guinness Perfect Pour



**SPARK FOUNDATION**



In line with our rebranding to HEINEKEN Malaysia, we changed the name of GAB Foundation, our corporate social responsibility (CSR) arm, to SPARK Foundation. The name “SPARK” was chosen to reflect our desire to ignite passion and the desire to effect positive change among members of the community, especially millennials. The hope is to form more strategic partnerships with like-minded individuals and groups, and truly grow with our communities to accelerate the Foundation’s environmental and educational initiatives.

Established in 2007 with an objective to make a difference within local communities in Malaysia, SPARK Foundation has, since its inception, invested more than RM17 million in river rehabilitation, education and partnership programmes. It has engaged 136 local communities, 297 educational institutions, and fostered more than 56 partnerships with local communities, Government agencies and non-profit organisations.

SPARK Foundation has two flagship programmes that are benefitting thousands of Malaysians through increasing awareness in protecting our main water source – our rivers, and providing learning opportunities for the underprivileged.

**SINCE 2007**  
**RM17 million**  
invested in river rehabilitation, education and partnership programmes

**ENGAGED**  
**136**  
local communities  
**297**  
educational institutions

**FOSTERED**  
**56**  
partnerships with local communities, Government agencies, and non-profit organisations

**W.A.T.E.R Project**

Through Working Actively Through Education and Rehabilitation (W.A.T.E.R Project), we empower communities to safeguard the quality of rivers and the environment as a whole. The Foundation decided to focus on water conservation because of the increasing rate at which water is becoming scarce. Initiatives targeting the conservation of rivers have been motivated by the fact that more than 90% of Malaysia’s water supply comes from rivers, yet only 58% of our rivers remain clean.



## HOW WE CREATE VALUE FOR OUR PEOPLE

When we launched W.A.T.E.R in partnership with the Global Environment Centre (GEC) in 2007, it was the first community programme that focused on rivers. In the space of the ensuing 10 years, we have established 12 active river care communities along five rivers in Selangor and Perak - Sungei Way, Sungai Penchala, Sungai Senam, Sungai Buntong and Sungai Kledang. Collaborating with the Sungei Way community, we have transformed the water quality in Sungei Way from Class IV-V to Class III. Work is ongoing at all the other rivers with Training of Trainers programmes empowering the communities to enhance and safeguard their rivers.

Going forward, SPARK Foundation seeks to focus on the following four areas to further enhance the programme:

- Promote the use of water conservation technologies – such as water thimble technology and rainwater harvesting – to reduce stress on our rivers
- Enhance waste water management along the rivers we have 'adopted' through wetland planting
- Partner with relevant Government agencies in the River of Life Public Outreach Programme
- Empower stakeholders, especially millennials, by equipping them with the power of knowledge

### English Enrichment Training Programme

We launched the English Enrichment Training Programme in 2012 to enhance the standard and quality of English language teaching in primary schools. Under the programme, we provide four-day trainings to equip Year 1 to Year 3 English language teachers with new and creative ideas to make English learning fun, therefore more effective with their beneficiaries. Following the programme, teachers are required to conduct 22 English supplementary classes over 10 months to apply what they have picked up. Post-training support is provided by mentors to sustain the impact of the programme and ensure the continuous development of the teachers.

In line with SPARK Foundation's work on water conservation, in 2017, the English Enrichment Training Programme introduced 30% of syllabus around water and river conservation, so we not only helped to promote English language competency, but also increased both the teachers' and their students' awareness of water issues facing society. During the year, 65 teachers from 53 schools across seven states participated in the four-day programme. Oral assessments were included as part of the programme to increase students' confidence in holding conversations in English.

To date, we have invested close to RM4.7 million in training 530 educators from 280 schools in seven states – Kedah, Perak, Malacca, Negeri Sembilan, Johor, Sabah and Sarawak, benefitting more than 7,200 students. Positive outcomes include an average improvement of 30% in English reading, writing and listening skills among all students. Some of the indirect beneficiaries who have benefitted from the programme have even won storytelling competitions in English at the district level. Teachers, too, are more comfortable using the language.



IN JUST  
**6**  
YEARS



Empowered over  
**530**  
teachers



Across  
**7**  
states

**30%**  
Syllabus on  
water conservation

▲ **30%**  
Reading, writing  
& listening skills



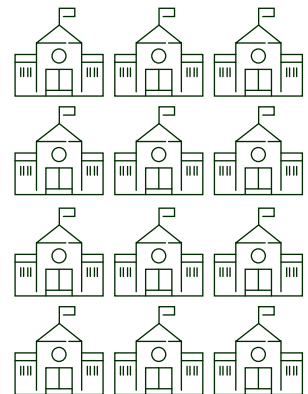
### Tiger Sin Chew Chinese Education Charity Concert (Tiger CECC)

Tiger CECC was initiated in 1994 to raise funds through concerts for the development of Chinese schools. The concerts are presented by Tiger Beer and co-organised by Sin Chew Daily and Guang Ming Daily newspapers with the support of the respective schools. The programme has been extremely successful, raising a total of more than RM320 million to date. Just in 2017, we helped to raise more than RM21 million for 12 schools. The concert held at SMJK Yoke Kuan, Sekinchan, on 27 May 2017 raised the most funds for a single concert to date – at RM5,579,823.



Tiger CECC has raised more than

**RM320 million**  
since 1994



Raised more than  
**RM21 million**  
for 12 Chinese schools  
in 2017



# PROTECTING THE PLANET

- 46 Water Management
- 49 Energy & Carbon Management
- 50 Waste Management
- 50 Sustainable Sourcing
- 50 Green Office





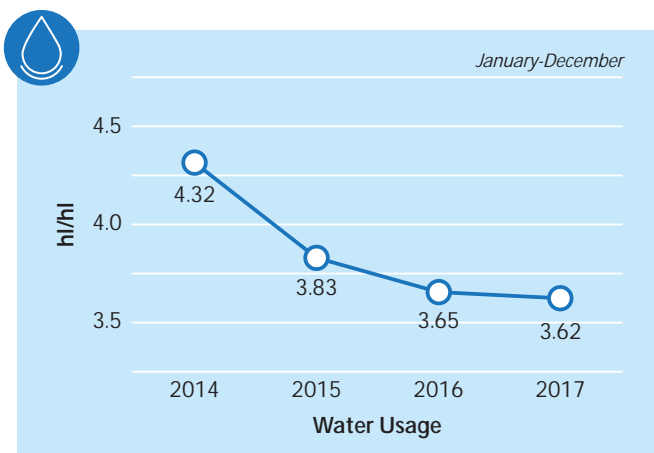
## PROTECTING THE PLANET

As a responsible corporate citizen, we seek to minimise the impact our operations have on the environment. We are guided in our efforts by HEINEKEN's global Brewing a Better World strategy. Based on these guidelines, we have initiated various actions focused on water management, waste management, as well as energy and carbon management. These are the areas in which we impact the environment the most, and are therefore the same areas in which we can make meaningful contributions through sustainable practice.

### WATER MANAGEMENT

Water is essential for human life and is becoming increasingly scarce globally. Given that our operations rely to a great extent on continued supply of water, we feel an enormous sense of responsibility towards protecting water resources in Malaysia as well as using water sustainably in our brewery. Water is not only a key raw material in brewing our products, it is also required in our packaging process and is used for various cleaning processes.

Our approach to responsible water management in our operations focuses on three main areas, namely bottle washing, brewing processes and wastewater treatment. As a result of initiatives undertaken, we have reduced our consumption from 4.32hl/hl in 2014 to 3.62hl/hl in 2017, putting us on track to meeting the HEINEKEN Global target of 3.5hl/hl by 2020.



Additionally, we have been running a multi-stakeholder project to conserve water with a particular focus on rehabilitating rivers and educating Malaysians about the importance of water.

### Greater Efficiencies in Brewing/Production

In our production lines, we embrace a holistic approach towards reducing our water consumption that includes:

- Good Brew & Cleaning Planning
- Restoring Basic Condition (RBC) on various machines
- Establishing trigger points for critical machines
- Ongoing education and engagement of employees

Through proper planning, we have been able to optimise our processes, increase our water recuperation rate, and eliminate the need for fresh water final rinse after hot water cleaning. Machine integrity results in optimum efficiencies and reduced wastage. The establishment of trigger points, meanwhile, allows us to better monitor our water consumption and take corrective action faster should there be any obstruction to optimum performance. Finally, employees who understand the need to conserve water ensure we meet our objectives through concerted and collaborative effort. On this front, we are seeing a gradual mindset change that will bring even more positive results in the future.

We have also adopted a two-phase approach to improving the efficiency of our bottle washer, leading to a significant reduction in our water consumption. Phase 1 involved reducing leakage through equipment restoration, focusing on parts such as tank drain valves, jetter end covers, jetter fittings, water tank filters and solenoid valves. This enabled us to reduce our water consumption from 22m<sup>3</sup>/hour to 9.0m<sup>3</sup>/hour. Phase 2 involved reducing our bottle washer spray nozzle size from 2.00mm to 1.50mm and optimising the spraying pressure at the final rinse, which led to a further reduction in water consumption from 9.0m<sup>3</sup>/hour to 4.5m<sup>3</sup>/hour.

Our wastewater treatment plant ensures our wastewater quality meets the standards set by the Department of Environment (DoE). This means that the water released from our brewery will not contaminate water sources in the vicinity.



### W.A.T.E.R Project

The W.A.T.E.R Project is a collaborative effort between SPARK Foundation (formerly GAB Foundation), the Global Environment Centre (GEC), Government agencies and communities to help conserve water resources with a specific focus on rehabilitating rivers throughout Malaysia. The emphasis placed on rivers has been motivated by the fact that more than 90% of water supply in the country comes from rivers, however only 58% of them remain clean.

Under the project, we invest in infrastructure and physical improvement plans, while also educating stakeholders about the importance of rivers to engender a greater sense of ownership. Through our River Care Education Centre, River Carnivals and the Mobile River Care Unit, we are changing mindsets and attracting greater stakeholder participation in addressing river issues.

Since the launch of W.A.T.E.R Project in 2007, we have channelled close to RM7 million to the initiative and reached out to more than 30,000 Malaysians. We currently engage and educate communities along five rivers, namely Sungei Way and Sungai Penchala in Selangor, Sungai Senam, Sungai Buntong and Sungai Kledang in Perak. To date, we have established 12 active river care communities nationwide to conserve rivers that flow through their areas.

This year, we conducted two separate Training of Trainer initiatives as part of our River Care Education Programme under the W.A.T.E.R Project. In August 2017, we organised our third training programme for the Sungai Penchala community. The half-day training session saw 20 residents from SS20, Seksyen 14, TTDI, Perumahan Awam Bukit Kiara and Block 1 Desa Mentari participate in pollution mapping, water quality monitoring and upcycling used cooking oil activities. They were also taken on a tour of the Desa Mentari residential area to view some of the initiatives the community has undertaken to improve the quality of water and optimise water usage including rainwater harvesting, urban gardening, recycling and composting. We also organised a River Experience Programme to educate the public on the importance of river conservation.

In October 2017, we collaborated with Universiti Tunku Abdul Rahman, Kampar (UTAR Kampar) to organise a River Ranger Training of Trainers programme that brought together 75 students from five higher education institutions in Ipoh. During the one-day workshop, the students were taught how to monitor the health of river basins and, most importantly, how they can conserve water via effective waste management. They were also taken to Sungai Kampar to try out the river monitoring methods for themselves.

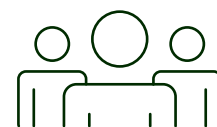


RM7 million  
INVESTED



30,000  
MALAYSIANS REACHED

5  
RIVERS ADOPTED



12  
ACTIVE RIVER CARE  
COMMUNITIES NATIONWIDE



# PROTECTING THE PLANET

## Other W.A.T.E.R Project Initiatives

### Rainwater Harvesting

In December 2017, we collaborated with Kupi-Kupi FM radio station to install rainwater harvesting systems in three community centres in Sabah: Balai Raya Koidupan and Dewan Nagashiba in Penampang, and Balai Raya Kampung Pinawantai in Kudat. Through the initiative, more than 2,300 people within the communities will have better access to clean water.

The systems installed consist of two 800-gallon water tanks with a maximum storage capacity of over 6,000 litres, enabling potential savings of more than 100,000 gallons of water annually. Using a two-stage filtration system, the communities are able to use the water collected for cleaning as well as cooking and drinking. The rainwater harvesting systems will also function as a secure back-up in the event of water scarcity and aid in decreasing storm water runoff, thereby helping to reduce local flooding.

### Waste Segregation at PJ Food Court

We also partnered with Majlis Bandaraya Petaling Jaya (MBPJ) and Global Environment Centre (GEC) for the third year to organise a Waste Segregation & Oil and Grease Trap initiative at the SS2 Food Court in Petaling Jaya in March 2017. Through the initiative, 70 food court operators received waste segregation bins, and 10 stalls were supplied with oil and grease traps to facilitate responsible cooking oil disposal. As a result of this on-going initiative, the total raw food waste reduced by 18%.

The Waste Segregation & Oil and Grease Trap initiative started in June 2015 with a waste audit of 18 food operators. A Training of Trainers programme followed in November 2015 to educate operators on waste segregation, organic composting and correct usage of oil and grease traps. Subsequently, a one-week waste audit involving 68 stall owners was conducted in August 2016 that recorded more than two tonnes of waste at the food court, including over 1.2 tonnes of raw food waste.



**Say No to Plastic Bags**

This year, we supported the Ipoh City Council Health Department's "No Plastic Bags and Polystyrene Container" initiative by distributing 3,000 food containers to 170 business operators and members of the public at 23 selected bazaars. With re-usable food containers, there is a reduced need for plastic bags and polystyrene containers.

**ENERGY AND CARBON MANAGEMENT**

We recognise the urgency of climate change issues and are committed to playing our part in minimising as far as possible our carbon footprint. We have been investing in increasingly more energy efficient systems and processes over the years, and continue to look for ways in which we can reduce our emissions.

In 2017, we introduced a more efficient process for boiling hops which decreases the boiling time, hence also our energy consumption. In addition, we continued to build on the success of existing initiatives to reduce carbon emissions through a range of energy management techniques, including:

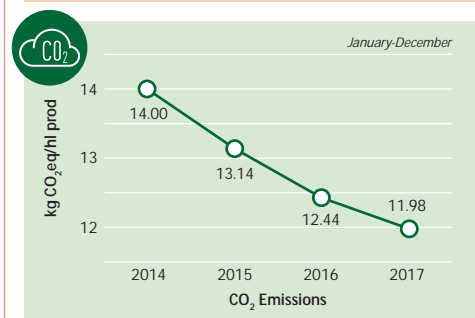
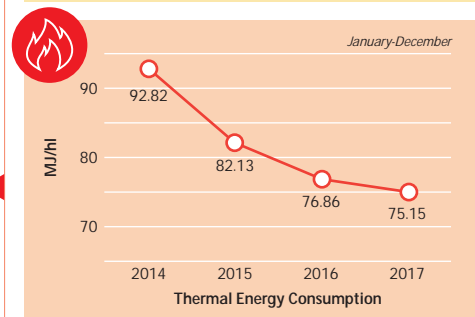
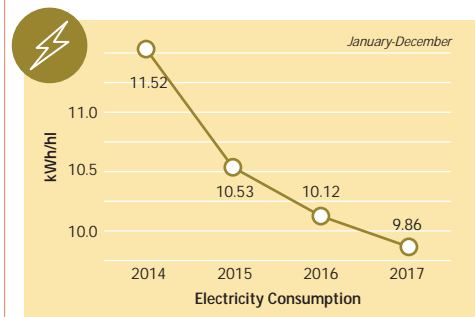
- combustion controller upgrade of our boilers
- additional recovery of biogas for boiler usage
- reusing bottle washer discharge for crate washing
- regular maintenance of our steam distribution and condensate return system
- installing new air compressor and cooling towers; replacing our ammonia evaporative condensers; optimising our cooling plant; and implementing variable speed control for our boiler burner fan motors
- establishing trigger points for critical machines
- education and engagement of employees

As is the case with water usage, we have processes that alert us to unusually high rates of energy consumption, which enable us to identify the cause and take effective corrective measures.

These initiatives have enabled us to improve our total energy consumption from sources including fuel, electricity, as well as recycled energy from heating, cooling and steam systems. In 2017, we reduced our electricity usage by 14.4% from 2014, and 2.6% from 2016 levels, while reducing our thermal energy usage by 19% from 2014 and 1.44% from 2016 levels.

Meanwhile, our CO<sub>2</sub> emissions have reduced by 14.4% relative to 2014 levels.

  
 DISTRIBUTED  
**3,000**  
 FOOD CONTAINERS  
 TO  
**170**  
 BUSINESS OPERATORS  
 & PUBLIC MEMBERS  
 AT  
**23**  
 SELECTED BAZAARS  
 IN PERAK



## PROTECTING THE PLANET

### WASTE MANAGEMENT

We generate a significant amount of by-products in the form of spent grain, cardboard cartons, damaged cans (aluminium), glass (cullets), metals, plastic scrap, etc. Over the years, we have made a conscious effort to recycle these materials in order to reduce the volume deposited in landfills.

Our 2020 waste management goals are:

- To fully recycle all residual products in production and achieve zero waste to landfill
- To identify waste components, reduce volume of waste and upcycle waste to create cost savings for the Company
- To move towards a circular economy by closing the loop and offsetting our carbon emissions

This year, we achieved our zero waste to landfill goal ahead of target by identifying a credible waste management partner able to manage all our waste. The total waste produced in 2017 was approximately 24,500 tonnes. Effective September 2017, we have achieved 'zero waste to landfill' status, ahead of our 2020 target. These recycling activities not only contribute to a greener environment, but have also generated an additional RM324,637 in revenue for the Company, which will be invested into environmental performance improvement initiatives.



**ZERO WASTE  
TO LANDFILL**  
ACHIEVED AHEAD OF SCHEDULE

### SUSTAINABLE SOURCING

Efforts to reduce our environmental impact are supplemented by engaging suppliers who also adhere to sustainable practices. In 2017, we increased efforts to collaborate with our packaging material suppliers, in particular bottle manufacturers to optimise the production and supply of our glass bottles with an aim to reduce wastage and improve resource efficiency. As of December 2017, 92.1% of our suppliers have committed to adhere to the HEINEKEN Supplier Code and HEINEKEN Malaysia Supplementary Code, which detail our commitment and enforcement of integrity and business conduct, as well as our policies on human rights and the environment. By 2019, we aim to get 100% of our suppliers on board and adhere to the Code.

### GREEN OFFICE

Along with an office upgrade that was completed in May 2017, we launched a Green Office initiative as part of an overarching ambition to instil a green mindset at HEINEKEN Malaysia. Employees from all departments across regions were challenged to come up with innovative ideas to save paper, water and electricity as well as to manage waste more effectively.

The results were impressive, bringing about an 18% reduction in electricity usage, 25% reduction in water usage, and 28% reduction in paper usage in non-production offices in our headquarters as well as the regions. This represented more than RM130,000 in cost savings.

In addition, starting from 1 July 2017, a charge of 50 sen is imposed for each plastic container used for takeaways from our cafeteria at the Sungei Way Brewery. To help employees manage without plastic implements, we issued specially designed Green Office Bento Boxes ideal for packed lunches. With a silicon base, they are also microwave friendly. Our aim is to eventually stop providing plastic bags, bottles or containers at the cafeteria.







## HEINEKEN GO-ers! ARE YOU A HERO?

Launched in May 2017, the HEINEKEN Green Office (GO) campaign aimed to reduce waste in terms of water, paper and energy usage – and we did it! We achieved positive response and terrific results, which were attainable only because every employee worked towards saving the environment. This goes to show that we at HEINEKEN Malaysia are committed to **BREWING A BETTER WORLD** together!

### WITH THE INVOLVEMENT OF:

**587** HEINEKEN Malaysia Employees Nationwide

**36** Green Champions

**18** Great Teams

we managed to carry out over

**40 TARGETED PROJECTS**

over the course of

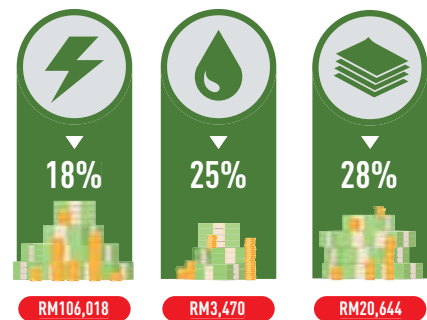


ACHIEVING A TOTAL SAVINGS OF

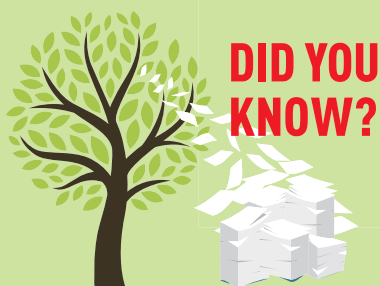
MORE THAN **RM130,000**

via

### SAVINGS VS 2016



Reduction of electricity and water consumption, as well as paper usage in non-production and offices in the regions.



**DID YOU KNOW?**

**17 REAMS OF PAPER = 1 TREE**

**WE SAVED**

Over **RM20,000** worth of paper, equivalent to **110 TREES** in total!

*Now, who says money doesn't grow on trees?  
Remember, there's no planet B!*

**CONGRATULATIONS TO EVERYONE AT HEINEKEN MALAYSIA WHO HAVE CONTRIBUTED TO THIS ACHIEVEMENT!**

LET'S CONTINUE **BREWING A BETTER WORLD TOGETHER**

Stay tuned for more updates.  
**#DareToZero**





# 04 ENHANCING OUR PERFORMANCE

- 54 Five-Year Financial Indicators
- 55 Analysis of Group Revenue
- 56 Chairman's Statement
- 60 Management Discussion & Analysis
- 65 Growing Our Brands





# FIVE-YEAR FINANCIAL INDICATORS

	Financial year ended 30 June			Financial year/ period ended 31 December	
	2013	2014	2015	2016*	2017
<b>KEY OPERATING RESULTS (RM'000)</b>					
Revenue	1,676,348	1,610,587	1,748,885	2,810,308	1,929,963
PBIT	292,746	270,609	295,361	551,051	366,403
Tax Expense	(71,132)	(67,581)	(78,206)	(121,963)	(93,116)
Profit After Tax	217,604	198,206	214,193	427,260	270,058
Net Cash from Operating Activities	225,608	236,225	295,017	445,543	357,856
<b>OTHER KEY DATA (RM'000)</b>					
Total Assets	752,648#	718,538#	713,900#	841,654#	867,780
Total Liabilities	(387,108)#	(361,729)#	(337,752)#	(449,099)#	(507,265)
Reserves	214,491	205,760	225,099	241,506	209,466
Total Equity	365,540	356,809	376,148	392,555	360,515
Capital Expenditures	45,555	39,280	38,429	87,195	77,235
<b>FINANCIAL RATIOS (%)</b>					
Operating Working Capital % of Revenue	11.4	13.0	8.7	7.7	10.0
EBITDA margin	19.9	19.4	19.3	22.1	21.6
Return on equity	80.1	75.8	78.5	140.4	101.6
<b>SHARE INFORMATION</b>					
Earnings per 50 sen stock unit (sen)	72.0	65.6	70.9	141.4	89.4
Net Dividend per 50 sen stock unit (sen)	68.5	64.5	71.0	145.0^	90.0
Dividend Yield (%)	3.6	4.9	5.0	8.9^	4.8
Net Assets per 50 sen stock unit (sen)	121.0	118.0	125.0	130.0	119.0
Market Capitalisation (RM'billion)	5.8	4.0	4.3	4.9	5.7

EBITDA: Earnings before interest, tax, depreciation and amortisation

PBIT: Profit before interest and tax

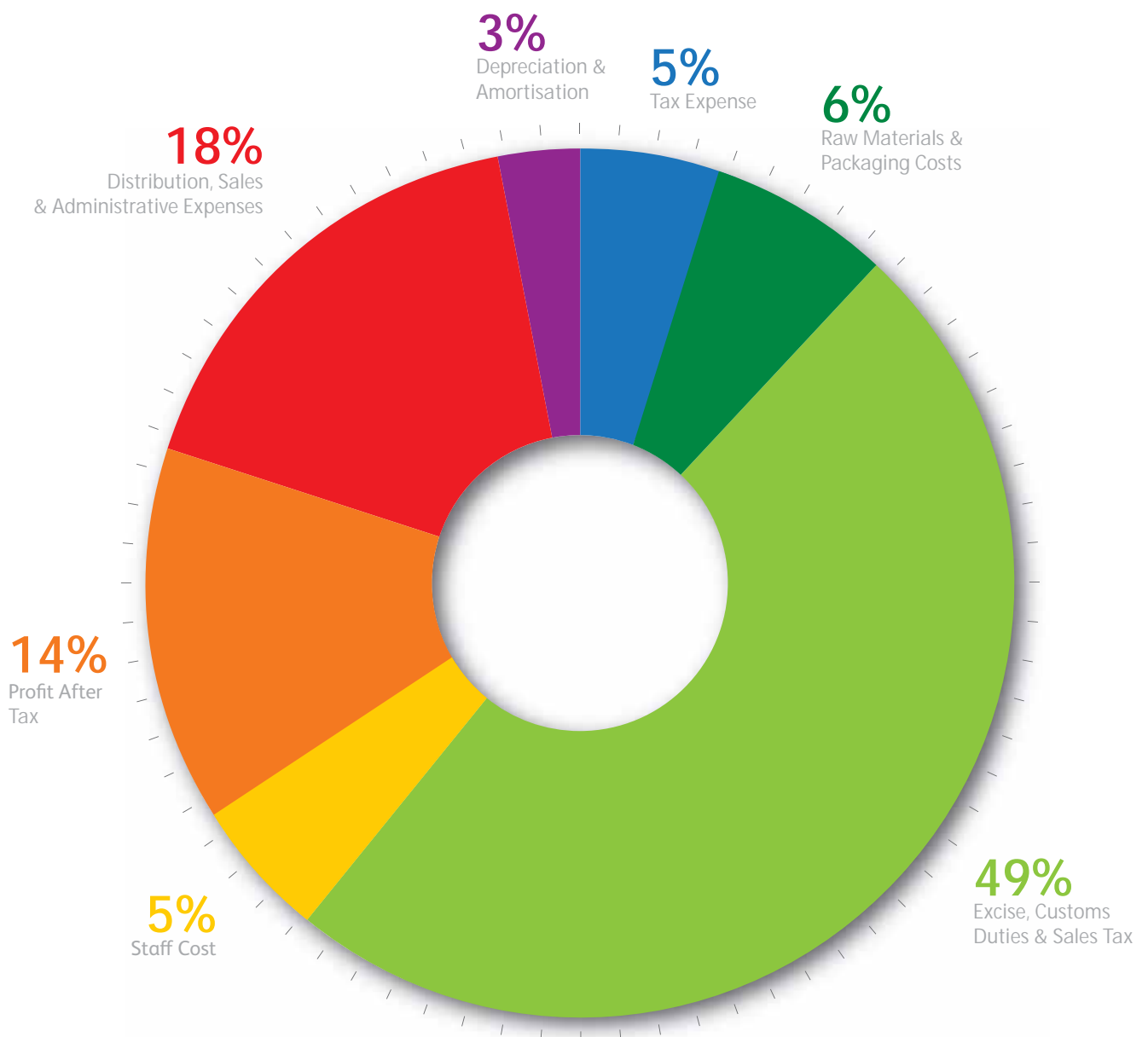
\* On 25 November 2015, the Company announced the change of financial year end from 30 June to 31 December. The financial reporting period in 2016 is for an 18-month period from 1 July 2015 to 31 December 2016.

^ Includes special dividend.

# Total assets and total liabilities are restated to conform to current year's presentation as explained under Note 27 to the financial statements.

# ANALYSIS OF GROUP REVENUE

for financial year ended 31 December 2017



**DATO' SRI IDRIS JALA**  
Chairman







# WHAT A STELLAR YEAR IT HAS BEEN

## DEAR SHAREHOLDERS,

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It is with pleasure that I present Heineken Malaysia Berhad's (HEINEKEN Malaysia) Annual Report 2017. A whole year has gone since my appointment as Chairman, and in this time the Company's performance has further strengthened my belief in its fundamentals. Despite a challenging macro-economic backdrop that included global uncertainties, rising costs, soft consumer sentiment and an on-going battle against contraband, HEINEKEN Malaysia not only performed commendably but, even more encouragingly, raised the bar in terms of operational efficiencies and market visibility.

During the year, we reviewed our strategy to be more aligned with the current climate. We increased our efficiencies and optimised our costs through greater integration with HEINEKEN's systems and processes. Leveraging the HEINEKEN global network, we also continued to build our local capabilities. Most pertinently, all this was achieved while further entrenching our corporate citizenry through positive social and environmental intervention.

### FINANCIAL PERFORMANCE & SHAREHOLDER RETURN

Our financial performance is determined ultimately by the performance of our brands. We believe each brand has two True Norths – sales revenue and profitability. These two 'orienting points' have guided our marketing and sales strategies, which in turn led to a 2.6% increase in revenue to RM1.93 billion for the financial year ended 31 December 2017.

The Board is pleased that, with the profit achieved in 2017, we have been able to declare a final dividend of 50 sen per stock unit. However, our ultimate responsibility is to ensure sustainable returns. Towards this end, it pleases me to share that our share price increased steadily over the course of the year, from RM16.40 in early January to RM18.90 as at 31 December 2017. The increase is encouraging in itself, and is made even more so given that it has come during a challenging time. What it reflects is the market's confidence in our ability to deliver.



# CHAIRMAN'S STATEMENT

## CHAIRMAN'S STATEMENT

### PRESERVING OUR VALUE

In order to preserve, indeed build, our value over the long term, we take cognisance of global and local issues, and adopt appropriate responses to these.

A perennial and pertinent issue facing the brewery industry is contraband, which costs the Government a huge sum in lost taxes and costs brewers a large portion of our market. The higher the local taxes are on alcohol, the bigger the price differential between legal and illegal alcoholic beverages, and the more attractive contraband is to the consumer. We are therefore very pleased that there was no hike in alcohol tax in 2017. At the same time, we will continue to work closely with the Government and all relevant stakeholders to curb contraband sales in the country.

Another key area is being able to grow in a multi-racial country while being respectful of cultural sensitivities. In the 50 years that the Company has been operating in Malaysia, we have always kept within regulatory and cultural confines because of a conscious determination to maintain decorum in our marketing and sales activities. We realise that in order to achieve our vision "To be the leading brewer of inspirational brands, enjoyed anytime, anywhere" we have to keep ahead of market trends and continue to excite existing consumers while inciting new ones through a bigger focus on innovation in an evolving consumer landscape. In 2017, we launched Guinness Bright Stout, Apple Fox Cider, and the new Tiger Radler Lemon, limited edition Tiger Radler Grapefruit, as well as Tiger Radler 0.0% Lime Mint, a refreshing non-alcoholic sparkling malt beverage.

Related to meeting consumer needs is to evolve our marketing and distribution strategies in order to cater for an increasingly digitised environment. We are keenly aware of a behavioural shift towards online services, and are adapting our market interface to embrace business-to-business as well as business-to-consumer platforms.

The entire process of digitisation requires a new mindset, which we are cultivating by recruiting the right talent as well as training our existing employees. Talent development is, in fact, one of the key focus areas of our refined strategy. In addition to formal training, we have a culture of knowledge sharing in HEINEKEN both across the Asia Pacific region as well as globally. Various regional meetings and workshops are organised, presenting excellent opportunities for the cross-fertilisation of ideas. Meanwhile, fresh recruits, executives and mid-management are sent on cross-border assignments and postings for international exposure and experience which accelerate their professional development.

### BREWING A BETTER WORLD

Sustainability is integral to our operations. All our business decisions and goal setting take into account our commitment to protecting our people and the planet. As a measure of the importance placed on balancing our financial performance with our social and environmental imperatives, this year we formalised a Sustainability Committee which is chaired by the Corporate Affairs & Legal Director, supported by the Corporate Responsibility Manager and the Head of Process & Control Improvement. The Sustainability Committee reports to the Managing Director and ultimately to the Board. Our role on the Board is to ensure HEINEKEN Malaysia achieves its vision and fulfils its sustainability obligations as outlined in HEINEKEN's Brewing a Better World global sustainability agenda.

In line with the Company's rebranding from GAB to HEINEKEN Malaysia, we have also renamed GAB Foundation as SPARK Foundation in November 2017 which will continue to serve the community, uplift lives and create greater social equity by building on strategic partnerships.

### GOVERNANCE UPDATES

Corporate governance is part of our sustainability agenda as it helps build stakeholder trust. The Board ensures the Company maintains a high level of transparency in our operations, and that we carry out our business with integrity. We adhere to best practices as these evolve, and embrace the new Companies Act 2016 as well as the principles and approach of the new Code on Corporate Governance released by the Securities Commission in 2017.

We are also supportive of the Government's vision for women to make up at least 30% of decision-making positions in corporations, as we believe diversity is key to maintaining a competitive edge. There is much value to be derived from diverse ways of thinking, of doing things and of communicating, which we can achieve through gender, cultural and age diversity of our people. I am, therefore, pleased to welcome a new female Director to our Board. At the middle to senior management level, we fare quite well, with 48% female representation. However, more can be done and we will be looking into this seriously.

In 2017, we launched Guinness Bright Stout, Apple Fox Cider, and the new Tiger Radler Lemon, limited edition Tiger Radler Grapefruit, as well as Tiger Radler 0.0% Lime Mint, a refreshing non-alcoholic sparkling malt beverage



### INTO 2018

The macro-environment in 2018 looks set to be as challenging as it was in 2017, with additional pressures from the increase in legal purchasing age of alcohol from 18 to 21, as well as uncertainties that accompany a general election. However, we believe that HEINEKEN Malaysia has what it takes to withstand all headwinds, supported by our inspirational brands, a group of dedicated talent and effective strategies that underline our sustainability. Innovation will be key to managing consumer expectations, enhancing our portfolio of offerings and our delivery.

### ACKNOWLEDGEMENTS

I would like to thank my colleagues on the Board of Directors for their time and counsel, which help to maintain HEINEKEN Malaysia on the path that we have set for ourselves. On behalf of the Board, I would like to express a special note of appreciation to Frans Erik Eusman who served the Board for more than two years before stepping down on 1 November 2017. We also extend a warm welcome to Lim Rern Ming, Geraldine, who brings with her years of experience, which will greatly enrich our collective expertise.

I have great admiration for the astute leadership of our Management and applaud them for their ability to grow the Company while staying true to our values. All our employees also deserve a special mention for weathering the many changes that have taken place since our rebranding and for their dedication and passion for what we do and what we stand for.

I would also like to express sincere appreciation to our business partners who worked tirelessly in collaboration with our teams to ensure the success of the Company's many initiatives. Last but not least, a note of thanks to our shareholders for maintaining trust in the Company's ability to continue creating sustainable value.

With the continued support of our people and various stakeholders, I have no doubt that we will continue to raise the bar, achieving all our targets, and more.

**DATO' SRI IDRIS JALA**  
Chairman, HEINEKEN Malaysia

22 March 2018



# IT IS ALL ABOUT STAYING AHEAD OF THE GAME

In response to the challenging macro-environment, we took a long and hard look at our operations and refined our strategy to help us maintain our market leadership in the country.

## OVERVIEW

2017 began on a challenging note for HEINEKEN Malaysia, particularly as consumer sentiment remained soft, under pressure from economic uncertainties and rising costs of living. Although there was a gradual rejuvenation of consumer sentiment in the year, confidence remained below the optimism threshold and behind neighbouring markets in the region. Faced with this challenge, our team pulled together to identify and execute key strategies in the second half of 2017 to deliver a positive turnaround, enabling us to end the year with a commendable performance – reporting a 4.6% increase in profit before tax (PBT) on the back of a 2.6% growth in revenue.

In response to the challenging macro-environment, we took a long and hard look at our operations and refined our strategy to help us maintain our market leadership in the country. Significantly, we further enhanced our commercial effectiveness to stay competitive and drive deliverables, leveraged the resources and expertise of HEINEKEN's global scale of operations to optimise our costs, and sharpened our focus on innovation to meet evolving consumer preferences.

Having rolled out HEINEKEN's refreshed Company Purpose – We Are HEINEKEN – in January 2017, we accelerated the process of aligning our corporate identity and culture with that of our parent company. A key component of this culture is HEINEKEN's commitment to sustainability as guided by the HEINEKEN Global strategy "Brewing a Better World". While we strive for commercial goals, we are equally focused on delivering value to our stakeholders in three key areas – People, Planet and Performance – which form the three major sections of this Annual Report.

On behalf of our Board and Management Team, I would like to express our sincere appreciation for the continued trust of our shareholders, employees, business partners, and consumers. Your support has enabled us to deliver a commendable performance for the year and will continue to drive us to create sustainable value for our stakeholders.





**HANS ESSAADI**  
Managing Director

# MANAGEMENT DISCUSSION & ANALYSIS

# MANAGEMENT DISCUSSION & ANALYSIS

## OUR STRATEGY

In 2017, we launched HEINEKEN Malaysia's Vision 2020: To be the leading brewer of inspirational brands, enjoyed anytime, anywhere. We take cognisance of the need to lead not only in our financial performance, but to lead in a holistic manner by growing sustainably with our employees, business partners and surrounding communities. We are proud of our portfolio of iconic international and local brands, and we strive to ensure our brands truly inspire progressive and exciting experiences that connect with consumers. And we believe that by leveraging on innovation and technology, we will enable our range of brews to be enjoyed responsibly – anytime, anywhere.

Our performance for the year is attributed to a focus on delivering key strategic priorities, which included:

- 1 DRIVING COMMERCIAL EXCELLENCE
- 2 OPTIMISING COST EFFICIENCIES
- 3 BREWING A BETTER WORLD
- 4 DEVELOPING OUR PEOPLE

In the year, the team reviewed and identified areas of improvement that sharpened our commercial execution. Our brands delivered world class campaigns that cut through the noise to resonate with consumers who sought progressive, exciting experiences. We continued leading in the premium segment with Heineken® and Guinness. Heineken® inspired football fans with its UEFA Champions League campaign, while Guinness hosted the biggest ever St. Patrick's weekend celebration in Malaysia. Malaysia's undisputed No. 1 Beer, Tiger, demonstrated a courageous commitment to sustainability, and removed the iconic tiger from its logo to help fight illegal tiger trade. All-time local favourite Anchor introduced Anchor Smooth Draught to give consumers a real taste of draught in a bottle.

We continued our focus in growing the cider category. In 2017, we commenced local production of cider at our Sungei Way Brewery. With this, we unlocked significant cost efficiencies and now have the capability to expand our footprint in this category. In August 2017, we launched Apple Fox Cider, a refreshing and crisp cider inspired by New Zealand cider making traditions. Positioned as a mainstream cider brand to complement Strongbow, which is our existing premium cider offering, Apple Fox has performed very positively since its launch and has helped us gain significant market share in the category.

As mentioned earlier, our innovation agenda allows us to meet evolving consumer needs. During the year, we launched new products that offered new exciting flavours and we today have a portfolio of products that caters to the diverse taste preferences of consumers. The World's No. 1 Stout, Guinness, launched Guinness Bright, a stout infused with coffee, ginger and lemongrass extracts brewed exclusively for Malaysia through a collaboration between brewers at HEINEKEN Malaysia and the Open Gate Brewery in Dublin, Ireland.

We also enhanced our offerings in the Low and No Alcohol (LNA) category, with the launch of a refreshed Tiger Radler Lemon, the limited edition Tiger Radler Grapefruit as well as a non-alcoholic Tiger Radler 0.0% Lime Mint. With this sparkling malt beverage brewed from natural ingredients, we now have a product that caters to consumers seeking the ultimate refreshment for hot and sunny afternoons.

Innovation does not stop with new products. At HEINEKEN Malaysia, our innovative approach supports an advantaged supply chain. Through efforts in identifying and unlocking operational efficiencies across the value chain, we have continued to optimise processes and our ways of doing things to deliver greater cost savings. In 2017, we took steps to identify ways to improve our route-to-market and continued collaborating with our distributors and trade partners to ensure the sustainability of such win-win partnerships.

As indicated by our strategy, we genuinely believe in sustainability. At HEINEKEN, sustainability is not just something that is nice to do, but is the right thing to do. We believe that it is by doing the right things today that we will build a business that creates long term value. In 2017, we formalised a Sustainability Committee, which meets on a quarterly basis and reports progress made to the Board every six months. Through this committee, we will be adopting a strategic approach with prioritised actions towards meeting our Brewing A Better World 2020 sustainability goals.

In terms of people development, we now have more structured programmes to give our young talent the exposure and experience they need to accelerate their careers and develop leadership skills. Through the HEINEKEN Asia Pacific Graduate Programme (APGP), we have the ability to attract, recruit and develop the best graduates in Malaysia and provide these trainees with a structured 24-month programme including mentoring and coaching from senior managers and key leaders in the Asia Pacific region. Through the Accelerate Your Talent programme, our junior to middle managers also have opportunities to perform a three to six-month stint at another HEINEKEN operating company (OpCo) in the Asia Pacific region. In 2017, HEINEKEN Malaysia was the most active OpCo in terms of participation in short term assignments, sending 10 staff to other markets in the region and playing host to six individuals from other OpCos in return. Our vision is to develop more people to take on senior and leadership roles within HEINEKEN Malaysia and also to become a talent provider for the Asia Pacific region as well as for HEINEKEN globally.



## OUR FINANCIAL PERFORMANCE

HEINEKEN Malaysia's revenue for the financial year 2017 increased by 2.6% from RM1.88 billion in 2016 to RM1.93 billion, while profit before tax expanded by 4.6% from RM347 million to RM363 million as compared to the corresponding 12-month period in 2016. The performance was driven by volume growth led by Tiger complemented by other core brands and favourable mix. The successful execution of strategic initiatives as well as efficiency gains through cost optimisation across the organisation were factors that contributed to the performance in 2017.

Based on our performance, the Board has proposed a single tier final dividend of 50 sen per stock unit for the financial year ended December 2017. Subject to approval of the shareholders at the forthcoming Annual General Meeting, the single tier final dividend will be paid on 6 June 2018 to shareholders registered at the close of business on 18 May 2018. Together with a single tier interim dividend of 40 sen which was paid on 9 October 2017, our total dividend payout for the year amounts to 90 sen per stock unit.

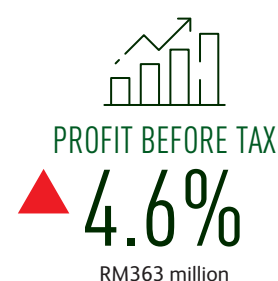
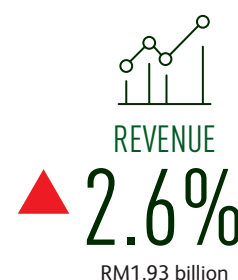
The Group's borrowings as at end 2017 stood at RM101 million as opposed to RM74 million at end 2016. This was used primarily to support our working capital requirements and commercial activities. The increase in borrowings YoY was mainly due to greater capital expenditure in 2017 and higher tax payments made relating to 2016 final tax payments that will be recovered at a later date.

The Group paid a total of RM93.12 million to the Government in tax for the year. This translated into an effective tax rate of 25.6%, which is higher than the statutory rate of 24%, mainly due to a one-off payment for the financial year 2016 as well as payment of deferred tax from 2016. In addition, we paid RM953.26 million in excise, customs duties and sales tax for the year.

## MANAGING OUR RISKS

HEINEKEN Malaysia's approach to risk management is detailed in our Statement on Risk Management and Internal Control. The following table contains the different areas of risks that are expected to impact the Company and relevant actions undertaken by Management to mitigate the risk.

Type of Risk	Action to Mitigate Risk
Regulatory & tax	We continue to engage the Government in key issues affecting the Industry with an aim to continue supporting the economic growth of the country.
Contraband	We proactively support the Government in enforcement initiatives, and have proposed a Multi Action Task Force comprising various agencies to combat contraband holistically.
Growing sensitivities	We adhere to HEINEKEN Responsible Marketing Code and review to ensure all marketing and promotional materials are in line with cultural sensitivities in society.
Security threat	We continue engaging with the Government and enforcement authorities to ensure the safety and security of our brewery, offices and at our public events.



## MANAGEMENT DISCUSSION & ANALYSIS

### OUTLOOK FOR 2018

Along with a gradually strengthening global economy, Malaysia's Gross Domestic Product is expected to continue on a growth trend in 2018. While the Malaysian Institute of Economic Research's Consumer Sentiments Index shows a consistent improvement over the past year, we note that consumer sentiment remains below the optimism threshold. Overall, we remain cautiously optimistic as challenges in the external environment persist. Notably, rising costs of living coupled with economic and political uncertainties during an election year are expected to impact consumer sentiment.

Malaysia currently has the second highest excise duties on beer and stout, behind Norway and alongside Singapore. Although beer and stout are relatively low in alcohol by volume (ABV), it is taxed at a higher rate as compared to wine, spirits, and compounded hard liquor, which have significantly higher ABV. We believe that the current tax structure is inequitable and will continue engaging the Government to create greater understanding on the issue with an aim for an equitable tax system.

Due to the aforementioned high excise rate, contraband will remain a significant issue for the Industry. In 2018, we will continue our proactive engagements with the Government and relevant authorities to address this issue, which if left unabated, will continue to negatively impact both the Industry and Government's tax revenue. We will support all efforts aimed at eradicating contraband through a holistic approach that includes enforcement as well as awareness and education programmes for Government officers, our trade partners and consumers.

Notwithstanding the macro-environment, we will continue our consumer-inspired approach to innovate for today's and tomorrow's consumers. The consumer market is evolving at pace as we are already experiencing shifts from On-Trade to Off-Trade, from traditional channels to modern ones, and from offline to online. To ensure we are at the forefront of these changes, we will need to further enhance efficiencies in our route-to-market, leveraging on technology and automation. We believe that by accelerating efficiencies across our value chain, we will be able to deliver greater end-to-end performance.

We will not lose focus of our commitment to sustainability. While we are pleased to be on track to meet the HEINEKEN Global Brewing A Better World 2020 targets, we acknowledge that more can be done to ensure we deliver positive impact to the environment we operate in as well as the people whom we work with. We will thus strengthen our focus on reducing our environmental footprint as well as prioritising the wellbeing of our people.

We will continue  
our consumer-  
inspired approach to  
innovate for today's  
and tomorrow's  
consumers

### ACKNOWLEDGEMENTS

2017 has been a successful year, thanks to the efforts of our great team of employees at HEINEKEN Malaysia. In terms of changes to the Management Team in 2017, Maud Meijboom-van Wel, our former Marketing Director, has assumed a new role as Regional Heineken® Brand Development Director at HEINEKEN Asia Pacific, while Teo Hong Keng, former Finance Director, has left to pursue other opportunities outside of the HEINEKEN Group. We would like to thank Maud and Hong Keng for their excellent service. Replacing them are Jiri Rakosnik as Marketing Director and Szilard Voros as Finance Director.

In March 2018, our IT Director, Chow Yi Lin left the Company to take on a new role as Core HR Programme Lead at HEINEKEN Asia Pacific. I would like to thank Yi Lin for her valuable contributions and wish her the best in her new role.

On behalf of the Management Team and employees of HEINEKEN Malaysia, I would like to express sincere appreciation to the Board of Directors for their guidance throughout the year. We would like to record a special note of thanks to Frans Erik Eusman, President of HEINEKEN Asia Pacific, for his valuable service to the Board from September 2015 to October 2017. A warm welcome to Lim Rern Ming, Geraldine, who replaces Frans on the Board. Geraldine who is Regional Legal Director at HEINEKEN Asia Pacific brings with her more than 20 years of experience in legal practice including compliance and enterprise risk management.

**HANS ESSAADI**  
Managing Director

22 March 2018