HEINEKEN

HEINEKEN MALAYSIA BERHAD

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THIRD QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 2018

The Board of Directors of Heineken Malaysia Berhad ("the Company") wishes to announce the unaudited results of the Group for the third quarter and nine months ended 30 September 2018.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		INDIVIDUAL PERIOD 3 MONTHS ENDED		% Change +/(-)	**CUMULATIVE PERIOD 9 MONTHS ENDED**		% Change +/(-)
		30/09/2018	**30/09/2017***		**30/09/2018**	**30/09/2017***	
		RM'000	**RM'000**		**RM'000**	**RM'000**	
1.	Revenue	512,009	495,487	3.3%	1,367,391	1,284,358	6.5%
2.	Operating expenses	(413,570)	(400,051)		(1,130,272)	(1,042,434)	
3.	Operating profit	**98,439**	**95,436**	3.1%	**237,119**	**241,924**	-2.0%
4.	Interest income/(expense)	(696)	(773)		(1,745)	(1,846)	
5.	Profit before tax	97,743	94,663	3.3%	235,374	240,078	-2.0%
6.	Taxation	(18,875)	(28,795)		(52,850)	(63,656)	
7.	Net profit for the period	78,868	65,868	19.7%	182,524	176,422	3.5%
8.	Profit attributable to owners of the Company	78,868	65,868		182,524	176,422	
9.	Total comprehensive income attributable to owners of the Company	78,868	65,868		182,524	176,422	
10.	Earnings per share :						
(a)	Basic (based on 302,098,000 stock units) (sen)	26.11	21.80		60.42	58.40	
(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 30 September 2018 RM'000	AUDITED AS AT 31 December 2017 RM'000
Non-current assets		
Property, plant and equipment	251,561	241,837
Intangible assets	19,600	23,238
Deferred tax assets	-	1,605
Other receivables	14,324	19,085
	285,485	285,765
Current assets		
Inventories	65,778	66,899
Trade and other receivables	346,542	483,885
Current tax assets	7,654	19,926
Cash and cash equivalents	33,149	11,305
	453,123	582,015
Current liabilities		
Trade and other payables	419,162	358,421
Current tax liabilities	-	18,369
Borrowings	25,000	101,000
	444,162	477,790
Net current assets	8,961	104,225
	294,446	389,990
Financed by:		
Capital and reserves		
Share capital	151,049	151,049
Reserves		
Retained earnings	120,102	209,466
Shareholders' funds	271,151	360,515
Non-current liabilities		
Deferred tax liabilities	23,295	29,475
	23,295	29,475
	294,446	389,990
Net Assets per share attributable to owners of the Company (RM)	0.90	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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2018

	9 MONTHS ENDED 30 September 2018 RM'000	9 MONTHS ENDED 30 September 2017 RM'000
Cash flows from operating activities		
Profit before tax	235,374	240,078
Adjustments for:		
Amortisation of intangible assets	4,770	11,502
Depreciation of property, plant and equipment	29,031	26,166
Loss on disposal of property, plant and equipment	979	10,816
Amortisation of prepaid contractual promotion expenses	39,030	35,050
Interest expense	2,675	2,651
Interest Income	(930)	(805)
Unrealised foreign exchange differences	(106)	(13)
Operating profit before changes in working capital	310,823	325,445
Movements in working capital		
Inventories	1,121	(11,835)
Receivables, deposits and prepayment	103,072	31,894
Payables and accruals	(59,990)	(41,831)
Cash generated from operations	355,026	303,673
Tax paid	(63,522)	(84,330)
Interest paid	(2,675)	(2,651)
Net cash from operating activities	288,829	216,692
Cash flows from investing activities		
Acquisition of property, plant and equipment	(40,728)	(39,809)
Acquisition of intangible assets	(1,130)	(688)
Interest received	930	805
Proceeds from disposal of property, plant and equipment	992	402
Net cash used in investing activities	(39,936)	(39,290)
Cash flows from financing activity		
Dividends paid	(151,049)	(181,259)
Repayment/(Drawdown) of borrowings	(76,000)	16,000
Net cash used in financing activity	(227,049)	(165,259)
Net change in cash and cash equivalents	21,844	12,143
Cash and cash equivalents at beginning of year	11,305	4,045
Cash and cash equivalents at end of period	33,149	16,188

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.

HEINEKEN MALAYSIA BERHAD
(Company No. 5350-X)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 9 MONTHS ENDED 30 SEPTEMBER 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
9 months ended <u>30 September 2018</u>				
Balance at 1 January 2018	151,049	-	209,466	360,515
Total comprehensive income for the period	-	-	182,524	182,524
Dividends paid / payable	-	-	(271,888)	(271,888)
Balance at 30 September 2018	**151,049**	**-**	**120,102**	**271,151**
9 months ended <u>30 September 2017</u>				
Balance at 1 January 2017	151,049	-	241,506	392,555
Total comprehensive income for the period	-	-	176,422	176,422
Dividends paid / payable	-	-	(302,098)	(302,098)
Balance at 30 September 2017	**151,049**	**-**	**115,830**	**266,879**

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 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 as the Group has a policy in place to monitor credit risk.

- 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.

Save for the following, the adoption of MFRS 15 will not have any impact on the Group operating profit, net profit and earning per ordinary stock unit:

Impact on Statement of Comprehensive Income	Previously reported RM'000	Effect of MFRS 15 RM'000	Restated RM'000
For the quarter ended 30 September 2017			
Revenue	509,588	(14,101)	495,487
Operating Expenses	(414,152)	14,101	(400,051)
For the 9 months ended 30 September 2017			
Revenue	1,317,278	(32,920)	1,284,358
Operating Expenses	(1,075,354)	32,920	(1,042,434)

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

	9 months ended 30 September 2018 RM'000	9 months ended 30 September 2017 RM'000
Final Dividend paid		
For year ended 31 December 2017		
50 sen per stock unit tax exempt paid on 6 June 2018	151,049	
For 18 months ended 31 December 2016		
60 sen per stock unit tax exempt paid on 16 May 2017		181,259
	151,049	181,259

On 28 August 2018, the Company declared a single tier Interim Dividend of 40 sen per stock unit, amounting to RM120,839,200 in respect of the financial year ending 31 December 2018. The said dividend was paid on 25 October 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 30 September 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 changes in contingent liabilities or contingent assets for the quarter ended 30 September 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 30 September 2018 are as follows:

	RM'000
Property, plant and equipment Authorised and contracted for	31,032

15. Significant Related Party Transactions

As at the end of the period 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	7,858
Sale of beverage products	19
Royalties paid/payable	24,607
Fees paid/payable for professional services relating to technical, marketing and other advisory support	11,362
Fees received/receivable for professional services relating to marketing support and other support services	5,500

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 11 May 2018.

16. Review of Performance

Quarter ended 30 September 2018 versus same quarter in 2017

	3 months ended 30 September 2018 RM'000	3 months ended 30 September 2017* RM'000	% Change +/(-)
Revenue	512,009	495,487	3.3%
Profit before tax	97,743	94,663	3.3%

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

Group revenue grew 3.3% to RM512 million as compared to the same quarter in 2017 mainly driven by the increase in sales volume prior to the implementation of the Sales Tax and Service Tax ("SST") on 1 September 2018.

Correspondingly, Group Profit Before Tax ("PBT") grew 3.3% compared to the same quarter last year.

16. Review of Performance (Continued)

9 months ended 30 September 2018 versus the same period in 2017

	9 months ended 30 September 2018 RM'000	9 months ended 30 September 2017* RM'000	% Change +/(-)
Revenue	1,367,391	1,284,358	6.5%
Profit before tax	235,374	240,078	-2.0%

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

Group revenue increased by 6.5% to RM1,367 million compared to the same period in 2017 mainly attributed to increase in sales volume prior to the price adjustment on 15 April 2018 and the implementation of SST on 1 September 2018.

Group PBT declined by 2% principally due to higher commercial spend for the festive period in the first half of the year.

Quarter ended 30 September 2018 versus 30 June 2018

	3 months ended 30 September 2018 RM'000	3 months ended 30 June 2018 RM'000	% Change +/(-)
Revenue	512,009	421,569	21%
Profit before tax	97,743	73,478	33%

Group revenue was significantly higher by 21% as compared to the preceding quarter, primarily due to higher sales in anticipation of the implementation of SST on 1 September 2018.

Group PBT grew 33%, driven by higher revenue and timing difference of commercial spend in the quarter under review, supported by effective cost management initiatives within the Group.

17. Prospects

The Group expects the business environment to remain challenging given the intense competition, the implementation of the SST on 1 September 2018 and the continued presence of contraband beer in the market.

Leveraging on the strong portfolio of iconic brands, the Group will continue to strengthen its commercial strategies and execution to drive performance and will strive to improve operational efficiencies across the business to achieve commendable performance for the financial year 2018.

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 30 September 2018 RM'000	9 months ended 30 September 2018 RM'000
Taxation		
Malaysian - current	24,140	59,102
Malaysian - Prior	(1,677)	(1,677)
Deferred taxation		
Malaysian - current	(255)	(1,242)
Malaysian - Prior	(3,333)	(3,333)
	18,875	52,850

The Group's effective rate for the period under review is 22%, which is slightly below the statutory tax rate of 24%. The lower rate is mainly due to over provision of taxation and deferred taxation in the prior year recognised in the current year.

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

Total group borrowing as at 30 September 2018 are as follow:

	As at 30 September 2018 RM'000	As at 30 September 2017 RM'000
Current - Unsecured		
Trade financing	25,000	90,000
	25,000	90,000

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	10,099	10,036	63

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.

22. Financial Instruments (Continued)

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 30 September 2018 RM'000	9 months ended 30 September 2018 RM'000
Depreciation and amortization	11,142	33,801
Provision for and write-off of inventories	5,458	10,304
Loss on derivatives	75	63

The provisions for and write-off of inventories mainly relates to rationalization of the Group portfolio.

Included in the 9 months ended 30 September 2018, there was a gain on derivatives amounting to RM12,000.

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 30 September 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 does not recommend any dividend to be paid for the quarter ended 30 September 2018.

Total dividend declared for the 9 months ended 30 September 2018 is 40 sen per stock unit comprising a single tier Interim Dividend of 40 sen per stock unit which was paid on 25 October 2018.

26. Earnings Per Share

(a) Basic Earnings Per Share

Basic earnings per share for the 9 months ended 30 September 2018 is calculated by dividing the net profit attributable to the shareholders of RM182,524,000 by the weighted average number of ordinary stock units outstanding as at 30 September 2018 of 302,098,000.

(b) Diluted Earnings Per Share

Not Applicable.

For and on Behalf of the Board
Roland Bala
Managing Director

31 October 2018