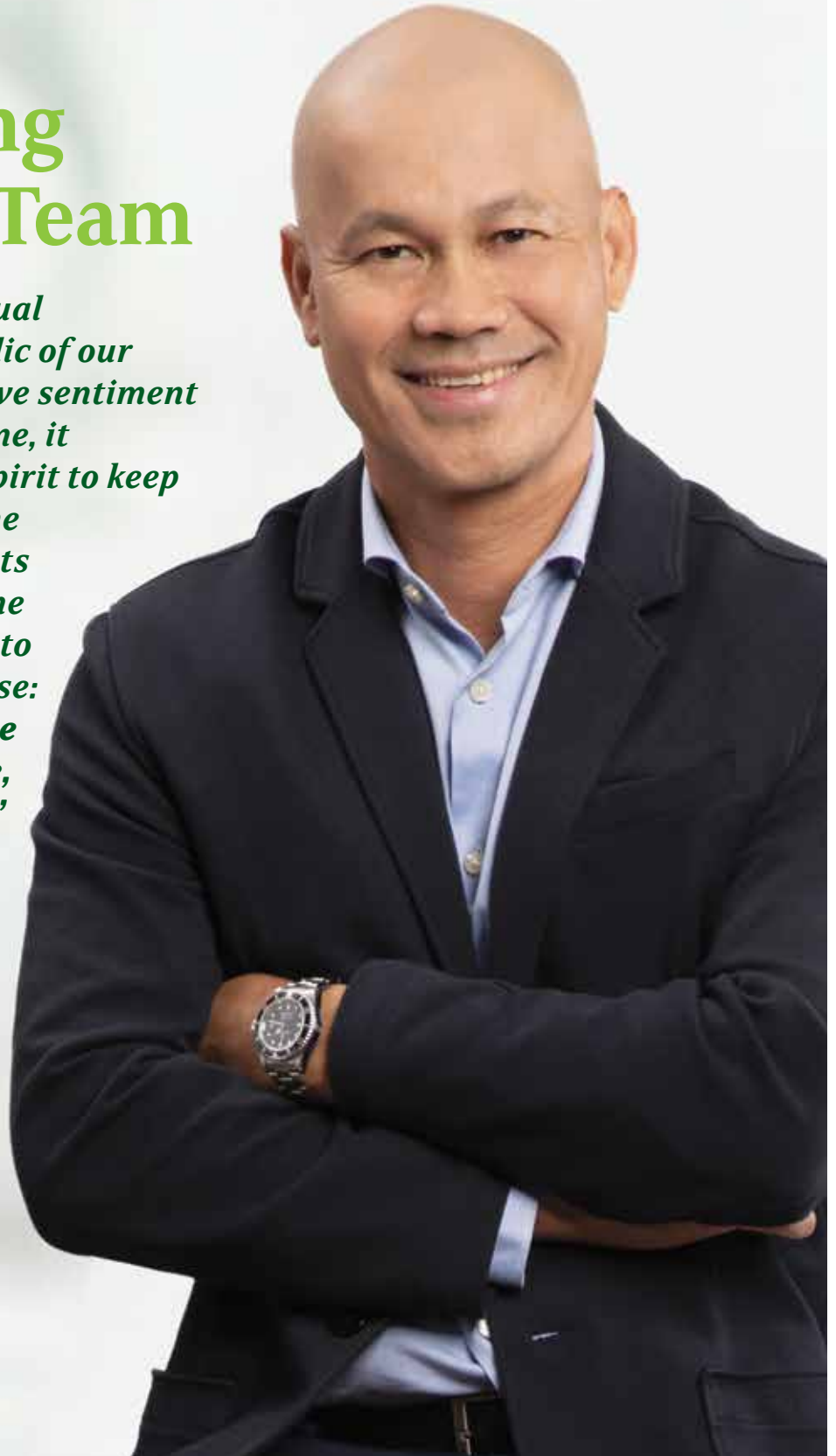


Management Discussion & Analysis

One Strong Winning Team

*“The cover of our Annual Report 2020 is symbolic of our organisation’s collective sentiment during the difficult time, it represents our team spirit to keep the lights shining in the darkness, and it reflects our commitment as One Strong Winning Team to stay true to our purpose: **Brewing a Sustainable Future for Our People, Business and Planet.**”*

Roland Bala
Managing Director



Management Discussion & Analysis

2020 was a difficult year. The Covid-19 global pandemic brought the economy to a standstill. Faced with the immediate need to bring the contagion under control, the Malaysian Government introduced the Movement Control Order (MCO) in March 2020, allowing only essential sectors of the economy to continue operating, whilst putting strict restrictions on all other activities, including social activities.

Looking back at the 46 consecutive days from 18 March to 3 May 2020, it can be said that those were the darkest days of our Company's history in Malaysia as we had to suspend operations at our Sungei Way Brewery during this period to comply with the MCO. The cover of our Annual Report 2020 is symbolic of our organisation's collective sentiment during the difficult time, it represents our team spirit to keep the lights shining in the darkness, and it reflects our commitment as One Strong Winning Team to stay true to our purpose: Brewing a Sustainable Future for our People, Business and Planet.

We are the leading brewer in the country, with a portfolio of iconic international and local brands that are supported by consumers who share the same Passion for Quality that is a key HEINEKEN value. In 2020, we had to respond to the drastic changes in the external environment caused by the global pandemic and nationwide lockdown, which had a significant impact on our industry and business. In navigating the crisis, our key priorities were (1) safeguarding the health and safety of our people, (2) adapting the business to the new landscape, and (3) prudent cost control to preserve cash.

Our Key Priorities

1 safeguarding the health and safety of our people	2 adapting the business to the new landscape	3 prudent cost control to preserve cash
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PROTECTING THE HEALTH & SAFETY OF OUR PEOPLE

To ensure the health and safety of our employees, we instructed all staff to work from home immediately upon the commencement of the MCO. When we were allowed to resume operations on 3 May 2020, only essential employees were asked to return to our brewery whilst non-essential staff continued working from home. From July to October 2020, during the Recovery MCO phase, we transitioned all employees to return to the office on a split team arrangement.



However, when the rate of new infections increased again in September 2020, the Government then re-introduced stricter Standard Operating Procedures (SOPs) and brought back restrictions on various social activities to stem the new wave of infections. The Government also introduced a 30% limit on office workers whilst allowing most sectors of the economy to continue operating. In the interest of minimising risks on our people's health, we made the decision to allow all non-essential office based employees to work from home fully and this practice continued for the rest of 2020.

At the work place, we introduced new rules and practices with an aim to prevent infection. For example, we have put in place guidelines on social distancing, strict segregation of staff between production and non-production workers, wearing of face masks, as well as setting up hand sanitisation stations to encourage all employees to clean their hands regularly. We also tightened entry requirements to our brewery, with all employees and visitors being required to check in daily via MySejahtera (the Government's Covid-19 mobile application that aids with contact tracing), have their body temperature taken, and submit a health declaration.

As a further proactive step, we have also introduced the Covid-19 screening requirement for all production workers, contractors and vendors who need to enter the Sungei Way Brewery. We are pleased that so far, no workplace cluster has been detected in our organisation. This clearly demonstrates the effectiveness

Management Discussion & Analysis

of the proactive interventions that we have undertaken. As such, we aim to continue maintaining a high level of discipline in enforcing the health-related SOPs and continually remind employees about the necessary health and safety precautions.

STAYING CONNECTED WITH CUSTOMERS & CONSUMERS

We started 2020 with the Chinese New Year festive campaign led by Tiger Beer, Malaysia's No. 1 Beer. The year of the rat coincided with Tiger's 88th anniversary and we went all out to give consumers an exciting festive season. Aptly named 'Double The Huat' in honour of the double celebration, we ran a successful series of promotions, contests and activations on a grander scale than ever before across all channels, including restaurants, coffee shops, supermarkets, convenience stores and e-Commerce.



However, due to the pandemic and nationwide lockdown, most of the commercial plans for the rest of the year were affected. For example, the annual Guinness St. Patrick's celebration in March had to be canceled. Meanwhile, we had to adapt to the new realities that Covid-19 had forced upon society. Consumption drivers such as dining out and having social gatherings at restaurants, pubs and bars were curtailed significantly by various restrictions. Indeed, certain outlets with liquor licenses such as pubs and entertainment outlets were prohibited from operating. Unfortunately, the perpetual restrictions have significantly impacted the economy and consumer sentiment. Local businesses who depend on beer as a source of revenue have struggled to survive. The Confederation of Malaysian Brewers Berhad estimates that around 3,800 of these outlets have remained closed during the year with some 38,000 jobs at risk.

During this challenging year, it was important to remain connected with our customers and consumers. We leveraged the power of our brands to help re-connect consumers to businesses. Through our Tiger Save Our Street Food campaign, we channeled RM1.5 million to help restaurants, food courts and street food vendors who were affected directly by the lockdown. During the campaign, supporters could purchase a voucher for a big bottle of Tiger or Tiger Crystal. Proceeds from the sale of the vouchers



were then fully donated to participating outlets, on top of the retail price of the beer that the outlets also receive. We are proud that this campaign brought consumers together to support their favourite restaurants and coffee shops, whilst demonstrating HEINEKEN Malaysia's commitment to navigate the storm together with our business partners.

As mentioned earlier, most pubs and entertainment outlets were not allowed to operate. In view of this, we launched the Raise Our Bars initiative, with a commitment of RM1 million to help affected pubs and bars during the crisis. The Heineken® brand also launched its Socialise Responsibly campaign, giving a fresh perspective to social distancing in bars, educating consumers that although new bar experiences can be awkward, it is important to respect the rules of social distancing.

In a year when staying at home became the norm, we further engaged consumers with exciting campaigns that cut through the monotony due to the lack of social interactions. When Tiger was not able to host the large-scale street food festivals it is famous for, the brand took the street food festival experience to the next level: from the streets, and onto consumers' screens. The World's No. 1 Stout, Guinness created a home edition for its Flavour by Fire campaign by engaging celebrity chefs to create new recipes using leftover ingredients suggested by consumers. Heineken® brought an electrifying countdown party experience to all living rooms, helping to usher in the New Year and connecting more than 200,000 Malaysians virtually to end the year on a memorable note, while enjoying social experiences responsibly.

I am pleased to report that HEINEKEN Malaysia's world-class brands continued to be recognised by Malaysian consumers at the Putra Brand Awards 2020. Tiger Beer clinched the most prestigious Platinum Award, while Heineken® achieved Gold, and Guinness won Silver. The latest wins bring HEINEKEN Malaysia's total awards tally at Putra Brand Awards to 33 since 2010.

Management Discussion & Analysis

Revenue

-24%

vs 2019

Profit Before Tax

-52%

vs 2019

OUR PERFORMANCE

Group revenue for the 12 months ended 31 December 2020 declined by 24%, impacted by the implementation of the first MCO during which the brewery suspended its operations. Despite the gradual recovery of economic activities after the second quarter, the Group's business performance particularly in the on-trade channel continued to be affected.

With the slowdown in the on-trade channel, we refocused our efforts to win in the off-trade channels including supermarkets and convenience stores, which were allowed to continue operating throughout the lockdowns. The rapid adoption of e-commerce in Malaysia was further accelerated by the pandemic, with many consumers switching from visiting physical stores to doing their shopping online. HEINEKEN Malaysia's official e-commerce platform, Drinkies.my, grew its total number of orders by 93% vs 2019. The on-demand delivery service is currently available in major cities of Peninsular Malaysia.

Group profit before tax dropped 52%, principally due to the same reasons mentioned above and the one-off settlement of the Customs' Bills of Demand amounting to RM7.2 million in June 2020 as well as and a one-off provision of RM14 million in December 2020 for costs associated with the organisational restructuring exercise being implemented in 2021. Nevertheless, this was partially mitigated by the cost savings measures.

Net cash from operating activities for FY2020 decreased by 45% to RM226 million, in tandem with the decline in Group revenue and operating profit and also due to the reduction in business activities in line with the cost saving initiatives undertaken by the Group during the year.

Net assets for FY2020 was recorded at RM349 million, 11% lower versus FY2019 mainly due to the decline in Group business performance and the reduction in capital expenditure in line with the cost saving measures.

The Group paid a total of RM1.05 billion in excise, custom duties, and sales tax for the year. The Group incurred a total of RM44 million in income tax, translated into an effective tax rate of 24%.

Based on our FY2020 results, the Board has proposed a first and final single tier dividend of 51 sen per stock unit. Subject to approval of the shareholders at the forthcoming Annual General Meeting, the single tier dividend will be paid on 28 July 2021 to shareholders registered at the closing of business on 30 June

2021. The dividend payout ratio for the year is approximately 100% of the Group's profit after tax.

PEOPLE & PLANET

Despite the challenges, the results of our performance was attributed to the hard work and commitment of our employees. During the year, we kept people connected through regular internal communications including Town Halls and Virtual Drinks. Employee engagement initiatives were supported with the use of digital platforms such as Workplace and Microsoft Teams, enabling productivity whilst ensuring our people stayed connected while being apart. Our response to the Covid-19 crisis and actions taken to safeguard the health of our people was positively received. 88% of employees surveyed rated these initiatives favourably. In 2020, HEINEKEN Malaysia's employee engagement score improved to 82% whilst performance enablement improved to 78%.

We recognise that diversity and inclusion as important drivers of performance. Women's representation on the Board has exceeded the Malaysian Government's target of 30% for public listed companies, with a 57:43 male to female ratio. Amongst our employees, we have a 50:50 male to female ratio in middle to senior management positions. We continue to tap on the rich diversity and experience of HEINEKEN's global community as we work towards creating a more inclusive workplace for all. Overall, our employee engagement initiatives were recognised by HR Asia who named HEINEKEN Malaysia amongst the Best Companies to Work For in Asia 2020.

Sustainability remains the the core of our business. We are guided by our global sustainability strategy, Brewing a Better World. Our key focus is in three areas, namely protecting water resources, advocating responsible consumption, and growing with communities. Our sustainability efforts continued to be recognised externally as HEINEKEN Malaysia was named Company of the Year (Manufacturing – Beverage) at the Sustainability & Corporate Social Responsibility Malaysia Awards 2020.

Compared to 2014, we have reduced our water consumption for production by 15.5%, cut CO2 emissions by 15.2%, and continued to increase use of renewable sources of energy such as bio gas, practice sustainable sourcing as well as zero waste to landfill. We also go beyond our immediate operations and collaborate with NGOs and communities in high impact water stewardship initiatives, focusing our efforts on protecting the Sungai Selangor and Sungai Penchala river basins. Through the work we have done through SPARK Foundation's W.A.T.E.R Project initiatives, we are proud to report that HEINEKEN Malaysia has balanced more than 100% of the water used in our products.

We take pride in the work that has been done to protect water resources, cut emissions, recycle waste, and source sustainably.

Management Discussion & Analysis

As a progressive brewer, we are taking the necessary steps to ensure we continue operating in a responsible way.

In 2020, the Government introduced stiffer penalties to combat drink driving. HEINEKEN Malaysia reaffirmed our commitment towards advocating responsible consumption. With a history dating back to 1964 in the country, HEINEKEN Malaysia has always been leading the effort in engaging and educating its customers and consumers on enjoying beers and ciders responsibly. Locally, HEINEKEN Malaysia has invested RM7.3 million since 2010 on various initiatives to create awareness amongst consumers. Through its 'Drink Sensibly' and 'Enjoy Responsibly' platforms, over RM5.3 million have been invested into outreach and education campaigns through brand and corporate communications, on-ground events, as well as digital campaigns including the annual year-end festive period awareness drive. As part of these programmes, consumers are educated on the importance of moderation and are encouraged to use alternative modes of transportation including e-hailing to go home safely.

The Heineken® brand has also activated the "When You Drive, Never Drink" platform in Malaysia, investing more than RM2 million since it was launched in 2016. Leveraging on the global partnership with F1®, Heineken® has been amplifying the simple but clear message urging consumers not to drive when they have consumed any amount of alcohol. Heineken® has communicated the message through various brand communications and

campaigns, making extensive use of traditional and social media and influencers to reach out to more than 15 million people.

During the year, the pandemic and nationwide lockdowns brought significant impact to communities who endured the effects of loss of income due to the economic slowdown. HEINEKEN Malaysia reached out with a helping hand, providing more than 80,000 meals to 3,120 B40 families at the height of the crisis. We further reached out to support communities in the East Malaysia state of Sabah during a major flood disaster in June 2020, collaborating with local radio station Kupikupi FM to deliver basic food aid to more than 1,000 flood victims.

Since 1994, the Tiger Chinese Education Charity Concert (CECC) has raised more than RM355 million for schools across Malaysia. However, holding such fundraising concerts in 2020 was not possible due to the various restrictions on social gatherings. Instead, Tiger collaborated with Sin Chew Daily to donate 30,000 pieces of face masks to schools in Peninsular Malaysia as part of the 'Wear Mask, Love Yourself' campaign.

MANAGING OUR RISKS

Our approach to risk management is detailed in our Statement on Risk Management and Internal Control on page 71 to 77. The following table contains a general description of different areas of risks and actions undertaken by Management:

Type of Risk	Actions to Mitigate Risk
Regulatory & Tax	We continue to engage the Government on key issues affecting the industry, in support of the country's growth ambition as well as recovery from the significant economic impact attributed to the ongoing global pandemic.
Illicit Alcohol	We fully support the Government's efforts in eradicating illicit alcohol, which represents a loss of revenue to both Government and Industry. We continue to work proactively to raise awareness about the dangers of illicit alcohol through engagements with relevant enforcement authorities, our trade partners and consumers.
Growing Sensitivities	We advocate responsible consumption. The Heineken® brand spends 10% of its media budget annually on promoting moderation and responsible consumption. Through our global partnership with F1, we reinforce a bold message – When You Drive, Never Drink. We also adhere strictly to the HEINEKEN Responsible Marketing Code to ensure that all promotional activities are in line with cultural sensitivities in Malaysia.
Safety & Security	We continue to increase awareness and practice of the HEINEKEN Life Saving Rules amongst our people. With regards to the ongoing Covid-19 pandemic, we have put in place strict guidelines and practices which are in line with the Government's Standard Operating Procedures, with daily monitoring and reporting that ensure compliance.

Management Discussion & Analysis

Our 2021 Focus



Cost & Value

- Right size our cost base
- Right size our organisation



Growth

- Focus on innovations & growing segments



Digital

- Accelerate B2B & B2C



Sustainability & Responsibility

- Protect Water Resources
- Advocate Responsible Consumption
- Empower Communities



People & Culture

- Build Talent Pipeline
- Invest in Future Leaders

OUR OUTLOOK

Our outlook, the Covid-19 pandemic and perpetual lockdowns with restrictions on social activities are expected to continue impacting the business. We expect that continued uncertainties due to the Covid-19 pandemic which will impact the speed of our business recovery. On 16 February 2021, the Government launched its National Covid-19 Immunisation Programme which is aimed to help the population achieve herd immunity by 2022. We are in support of this initiative and have encouraged our employees to register for the programme.

We will navigate the crisis while building for our future, with a strategy aimed at delivering superior growth in a fast-changing world, placing consumers and customers at the core, accelerating our digital route to consumer, as well as raising the bar on our sustainability and people agenda. We will also front load our agenda to implement continuous productivity improvements to drive efficiency in 2021. At the same time, we will continue to prioritise the health and wellbeing of our employees, trade partners, and consumers.

The overall business environment is expected to remain challenging. Contraband beer remains a key Industry issue that needs to be addressed. I take this opportunity to thank the Government for not increasing excise duties on beer, especially as Malaysia already ranks second highest in the world behind Norway and alongside Singapore. We also commend the Government for its commitment to address contraband through the setting up of the Multi Action Task Force, which is expected to strengthen enforcement initiatives against illicit trade. We are committed to continue to engaging the Government on Industry issues and play our role as a progressive partner in the economy.

ACKNOWLEDGEMENTS

In December 2020, our Human Resources Director, Kukarajan (Kuhan) Kanagarajan left the Group to pursue external opportunities. I would like to thank Kuhan for his contributions and wish him the best in his future endeavours. In the interim, Aileen Aumentado who is presently Head of Human Resources for HEINEKEN's business in the Philippines will oversee the HR function at HEINEKEN Malaysia until a successor is identified. On 1 June 2020, our Asia Pacific President Dolf van den Brink succeeded Jean-François van Boxmeer as Chairman of the Executive Board and Chief Executive Officer (CEO) Heineken N.V. Our sincere appreciation to Jean-François for his outstanding leadership and invaluable contributions throughout his 15-year leadership that helped transform HEINEKEN into a truly global company. We look forward with excitement to a new era with Dolf at the helm of HEINEKEN globally.

2020 was indeed a very challenging year. The pandemic has disrupted businesses and affected people's lives, requiring us to adapt to the new market realities. I take this opportunity to thank our loyal consumers, customers and trade partners for their incredible support and resilience as we together face this unprecedented challenge. On behalf of the Board, I would also like to thank all our employees for their commitment and resilience in navigating through this storm together.

Thank you.

Roland Bala
Managing Director
15 March 2021