

# Management Discussion & Analysis

## Navigating through the storm

We kept an all hands on deck approach by keeping the team connected and motivated through regular communications and updates, despite the many uncertainties in the external environment. Building on our experience in the previous year, our team had adapted to the new normal and leveraged agile ways of working to unlock greater efficiency and productivity.



# Management Discussion & Analysis

After a difficult 2020 due to the COVID-19 pandemic, we went into 2021 hopeful of continued recovery. The prolonged restrictions and lockdowns had adversely impacted the Group's business performance in the previous year and dampened economic recovery in the country. To protect our business, adapt to the new realities and accelerate recovery, we front-loaded our cost and value initiatives by right-sizing our cost base and the organisation. These bold moves were crucial to help the Group navigate the crisis whilst building for a stronger future.

Unfortunately, due to the continued spike in COVID-19 cases, the Government announced another lockdown which took effect in June 2021. For the second time in two years, we had to suspend our brewery operations for 11 weeks from June 2021 to August 2021, whilst operating restrictions were once again imposed on food & beverage (F&B) outlets, which continued until Q4. The pause in our brewery operations was significantly longer than the seven week stoppage we faced in 2020 due to the first MCO and this impeded on the Group's ability to conduct our normal business operations.

Nevertheless, I am pleased to share that the bold moves we took proved effective and helped to mitigate the adverse impacts of the longer pause in our operations. The following is a review of our business performance, highlights of our marketing campaigns, as well as our sustainability progress.

## OUR PERFORMANCE

Despite a longer lockdown, Group revenue increased by 12% in FY21 to RM1.98 billion, mainly due to improved revenue management and improved agility in managing our supply chain that helped mitigate the adverse impacts of the pause in our brewery operations.

The improvement in revenue, coupled with highly disciplined cost management, enabled the Group's Profit Before Tax (PBT) to grow by 62% in FY21 to RM321



**Despite the longer lockdown in 2021, we delivered revenue growth of +12% and PBT growth of +62%. This was possible due to the bold moves we took to right-size our cost base.**

million. Excluding the one-off settlement Customs' Bill of Demand amounting to RM7.2 million incurred in June 2020 and the one-off provision of RM14 million in December 2020 for costs associated with the organisational restructuring exercise implemented in 2021, Group PBT would have grown by 46%.

However, compared with pre-pandemic levels, the Group Revenue and PBT performance was still below the 2019 levels where Revenue was at RM2.32 billion and PBT was RM412 million, an indication that business is still under the recovery phase.

Net cash from operating activities for FY21 increased by 50% to RM340 million attributed to the improvement in working capital. Net assets for FY21 was recorded at RM396 million, 13% higher versus FY20 mainly due to better business performance during the year.

The Group paid a total of RM1 billion in excise, customs duties, and sales tax for the year. The Group incurred a total of RM76 million in income tax, translated into an effective tax rate of 24%.

Based on our 2021 results, the total dividend for the year is 81 sen per stock unit comprising:

- a single tier interim dividend of 15 sen per stock unit which was paid on 18 November 2021; and
- a proposed single tier final dividend of 66 sen per stock unit payable

in July 2022 upon shareholders' approval at forthcoming Annual General Meeting.

The dividend payout ratio for the year is approximately 99.6% of the Group's profit after tax.

## HOME OF WORLD CLASS BRANDS

We started 2021 with our Chinese New Year campaign led by Tiger Beer, Malaysia's No. 1 Beer. Tiger's 'Bring on the ONG' campaign welcomed the year of the Ox with an exciting and rewarding nationwide promotion, giving loyal consumers RM1,000,000 worth of prizes up for grabs, including RM18,888 'ONGsome' cash Ang Pows, among others. Throughout the campaign period from January to mid-February, various promotions and contests were activated across channels in participating restaurants, coffeeshops, supermarkets, convenience stores, as well as through HEINEKEN Malaysia's e-Commerce platform Drinkies.



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Due to ongoing social restrictions during the year, Tiger hosted its Virtual Street Food Festival for the second year in a row, bringing together streetwear, street food and many new exciting features for the virtual festivalgoers. As part of Tiger's consistent efforts to support the local street food scene, over 100 street food vendors took part in the festival. Fans could enjoy their favourite street food dishes paired with Tiger Beer and Tiger Crystal, all delivered to their doorsteps.

After more than a year of waiting, UEFA Euro 2020™ finally took place from 12 June to 12 July 2021. Heineken®, the proud official beer partner of UEFA Euro

# Management Discussion & Analysis

2020™, encouraged fans to join in the fun with through its campaign 'Enjoy the Rivalry'. Accompanying the campaign was a range of Limited-Edition Heineken® UEFA Euro 2020™ bottles and cans, featuring the flags of participating teams.

With working from home being the new norm in 2021 and in line with the brand's mission to refresh consumers' next long day of work, Heineken® gave away 10,000 units of Heineken® 0.0 4-can packs. Our message? #NowYouCan work responsibly while enjoying a cold Heineken® 0.0 - a refreshing beer, minus the guilt and minus the alcohol.

After a difficult 2020, which was defined by social distancing and isolation, Guinness gave consumers a chance to celebrate all of the previous year's missed occasions during St. Patrick's month. For 31 days in a row in March, Guinness spread joyful St. Patrick's spirit to its fans in Klang Valley and Penang with the Guinness St. Patrick's Celebration Kits, which were curated exclusively with a dash of Guinness and St. Patrick's elements to it.

When the lockdown was lifted, restaurants were finally able to welcome guests back for dine-in. Guinness gave family and loved ones an opportunity to reconnect post lockdown through its 'Ready When You Are' campaign. Whenever they are ready, fans will finally be able to reunite with friends, family and loved ones at their favourite outlets, while catching up with long-overdue conversations. Guinness brought back the renowned STOUTie machines to selected partner restaurants and bars where consumers can print their selfies on top of a cold and creamy glass of Guinness.

During the year, we also launched a new brand – the premium wheat beer Edelweiss. Born in the Alps and made with all-natural mountain ingredients, Edelweiss is now available across Peninsular Malaysia in bottles, cans and on draught. Easy-to-drink with a refreshing finish and a subtle, fruity aftertaste, Edelweiss is a smooth wheat beer with a golden hue and a natural cloudiness. We

are confident that Edelweiss will cater to growing demand amongst consumers for refreshingly smooth wheat beer.

I am pleased to share that our world-class brands continued to be recognised by consumers amongst Malaysia's most trusted and preferred brands at the Putra Brand Awards 2021. Heineken® and Tiger won Gold, and Guinness took home a Silver award. The triple win brings HEINEKEN Malaysia's total awards tally at Putra Brand Awards to 36 awards since 2010.

## CARE FOR PEOPLE & PLANET

Our performance was made possible by the resilience and commitment of our One Strong Winning Team at HEINEKEN Malaysia. Navigating through the storm whilst building for the future, we kept an all hands on deck approach by keeping the team connected and motivated through regular communications and updates, despite the many uncertainties in the external environment.

Building on our experience in the previous year, our team had adapted to the new normal and leveraged agile ways of working to unlock greater efficiency and productivity. This enabled us to be better prepared and mitigated the adverse impacts of the 11-week suspension of operations at our brewery, compared with the 7-week stoppage in the previous year. Our priority has always been to safeguard the health and safety of our people. When the COVID-19 vaccination programmes were made available by the Government, we proactively encouraged our employees to receive their vaccinations. By getting our employees and contractors who were required to work on site fully vaccinated, we were able to demonstrate to the Government our industry's readiness to resume operations in a safe manner.

I am pleased to share that as a result of the various employee engagement efforts in 2021, HEINEKEN Malaysia's employee engagement score improved by 2% to 84%, whilst our performance enablement score improved by 2% to 80%.



**I am pleased to share that our world-class brands continued to be recognised by consumers amongst Malaysia's most trusted and preferred brands at the Putra Brand Awards 2021."**

Diversity, equity and inclusion are indeed important drivers of performance. In 2021, we joined the 30% Club Malaysia to support the drive for more balanced representation at the highest levels of business. I am happy to report that HEINEKEN Malaysia continues to exceed the Government's target for public listed companies to have 30% of women on company boards, with 43% representation on our Board of Directors.

In our Management Team, we have a 50:50 balance of men and women, whilst at middle to senior management, we have a 55:45 ratio of men and women. We acknowledge that we have more to do to support more women to grow with us, especially in our Sales and Supply Chain functions, which are traditionally male-dominated.

Representation alone is not sufficient, we are committed to train 100% of our people managers on inclusive leadership practices by 2023. In 2021, we had already trained 80% of our people managers and we are on track to meet this target to create a more inclusive and diverse workforce at HEINEKEN Malaysia. In 2022, we will be launching a new set of HEINEKEN Behaviours to complement our refreshed Purpose and Values. Once again, continued engagement with employees will be key to build and sustain a culture of high performance to shape our future growth journey.

# Management Discussion & Analysis



**In 2021, we trained 80% of our people managers on inclusive leadership practices. We are on track to reach 100% by 2023.**

In 2021, we launched our Brew A Better World 2030 sustainability commitments. Our sustainability strategy is now driven through three key pillars – Environmental Sustainability, Social Sustainability, and Responsible Consumption. More details on our progress can be found in the Sustainability Review section of this Annual Report.

Amongst our key commitments are to reach net zero CO<sub>2</sub> emissions in production by 2030 and the wider value chain by 2040. This is indeed a bold commitment and requires us to immediately evaluate the possible pathways to reach net zero in the years ahead. I am glad to share that we already have a roadmap to cut CO<sub>2</sub> emissions in production by 50% by the year 2025, compared with our 2018 baseline. In 2021, we had reduced 15.7% of CO<sub>2</sub> emissions compared with 2018 and we will continue exploring available innovations that will reduce our reliance on non-renewable sources for energy generation, whilst continuing improvements in energy efficiency to reduce consumption where possible.

We continued to demonstrate leadership as a responsible water user through our water strategy that is focused on protecting healthy watersheds. Through our water triangle, we focus on reducing what we use (Water Efficiency), treating, reusing and recycling our waste (Water Circularity) and investing in projects that conserve our watersheds (Water Stewardship). In 2021, our average water consumption was 3.65 hl/hl, a 15.5% reduction compared to 2014 despite efficiency being impacted by the 11-week suspension of operations at our brewery.

We still have more to do in the years ahead to reach our 2030 target of 2.6 hl/

hl. For water circularity, we continue to treat 100% of our wastewater beyond the standards prescribed by the Department of Environment and will need to continue to identify the right opportunities to maximise reuse and recycling of our treated wastewater. In terms of water stewardship, after years of investment in projects in collaboration with civil society organisations and local communities, we reached more than 100% water balanced in 2020 by balancing 267% of the target balancing volume. In 2021, our water stewardship project achieved 289% of the target balancing volume.



**We are committed to reach net zero CO<sub>2</sub> emissions in production by 2030 and the wider value chain by 2040. In 2021, we reduced CO<sub>2</sub> emissions in production by 15.7% vs our 2018 baseline.**

Building on the work we started in 2020 to bring relief to those impacted by the pandemic, prolonged lockdowns and natural disasters, we launched HEINEKEN Cares in 2021 to deliver a bigger impact to those in need. Undoubtedly, the pandemic had brought significant impact to communities who endured the effects of loss of income during times of lockdown.

HEINEKEN Cares brought together eight civil society organisations and community partners across Peninsular Malaysia and East Malaysia, and supported their work in reaching out to B40 communities to offer a helping hand. All HEINEKEN Malaysia employees played a part to support this effort as every 1,000 steps an employee made during the period of July to December 2021 equaled 1 meal being provided for someone in need. Every step counts, every meal matters. We exceeded our target by collectively achieving 155 million steps during the period and this enabled us to channel more than 150,000



**We are the first company in Malaysia to fully balanced the water we use in or products, achieving 289% of our target balancing volume in 2021.**

meals during the period. Additionally, during the December 2021 flood disaster that hit the Klang Valley and several other areas in Peninsular Malaysia, we activated HEINEKEN Cares to deliver more 100,000 meals and urgent care packages to flood victims, including a number of our own employees who were also badly affected.

We are also proud of the positive impact made by our long-running Tiger Sin Chew Chinese Education Charity Concert (Tiger CECC) platform. After a pause in 2020 due to the pandemic, we brought Tiger CECC back in 2021 as a virtual concert, successfully helping to raise close to RM6 million for five schools. Since 1994, the Tiger CECC has raised more than RM361 million for schools across Malaysia, enabling the enhancement of teaching and learning environments through upgrade of facilities and amenities that has benefitted multiple generations of students who go on to contribute to Malaysia's growth.

In 2021, HEINEKEN Malaysia was accepted as one of the 54 members of the CEO Action Network (CAN), a closed-door peer-to-peer informal network of CEOs and Board members focused on sustainability advocacy, capacity building, action and performance. Through a dedicated Working Group, Workstreams and active members driving bespoke initiatives, CAN aspires to catalyse its members towards shaping future-ready and ESG-integrated business models and ecosystems. As a member, we are committed to engage with various stakeholders including our supply chain, regulators and policy makers, government, as well as our peers across various sectors to forge partnerships that are committed

# Management Discussion & Analysis

to responsible business practices and sustainable development. In the process, we will not only exchange industry best practices, but also share proven strategies and future proof ideas with CAN participants.

## MANAGING OUR RISKS

Our approach to risk management is detailed in our Statement on Risk Management and Internal Control on page 64 to 70. The following table contains a general description of different areas of risks and actions undertaken by Management:

	<p><b>REGULATORY &amp; TAX</b></p> <p>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.</p>		<p><b>ILLICIT ALCOHOL</b></p> <p>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.</p>
	<p><b>GROWING SENSITIVITIES</b></p> <p>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 respectful of cultural sensitivities.</p>		<p><b>SAFETY &amp; SECURITY</b></p> <p>We continue to increase awareness and practice of the HEINEKEN Life Saving Rules amongst our people. 100% of our employees and contractors are fully vaccinated against COVID-19, and we continue to conduct bi-weekly screening tests to minimise risk of workplace transmissions and clusters. We also continue practicing strict health and safety SOPs that ensure we create a safe workplace.</p>

## OUR OUTLOOK

We observed encouraging business recovery in the last quarter of 2021 when most states moved to Phase 4 of the National Recovery Plan and local tourism and food & beverage sectors started reopening. However, the Group remains cautious on the outlook for 2022 given the continual discovery of new COVID-19 variants.

In early 2022, the Omicron variant sparked a new wave of infections globally and Malaysia has not been spared, with new cases surging to a 7-day average of more than 30,000 cases per day in early March. The Government has proactively encouraged the population to receive booster doses of the vaccine and at the time of writing, this strategy appears to be succeeding in keeping hospitalisations

relatively low with the majority of cases demonstrating mild symptoms only.

The Government has further announced that Malaysia will begin its transition to the endemic phase in April 2022. This represents light at the end of the long tunnel and with the gradual reopening of international borders and revival of international tourism, Malaysia's hospitality and food & beverage sector is expected to accelerate further recovery after two extremely challenging years. Having said that, pubs and nightclubs continue to be on the negative list in the endemic phase. In this regard, we will support the industry through continued engagement with the Government to address any remaining concerns.

The adverse impacts of the pandemic on the global supply chain are expected

to pose continued challenges to the industry. The rise in prices for commodities and services, coupled with logistics constraints are factors that could drive higher input costs.

The Group welcomes the stance taken by the Government not to increase excise duties on beers and stouts in its Budget 2022, as any hike in excise rates will drive greater demand for illicit alcohol. HEINEKEN Malaysia remains committed to support the Government to stamp out illicit trade through holistic efforts including strengthening enforcement and raising greater awareness in the market.

The Government's one-off tax of 33% on taxable income above RM100 million in 2022 is another factor that will impact the Group's bottom line in FY22.

# Management Discussion & Analysis

In 2021, we launched our EverGreen strategy with the goal to future-proof the business, adapt to new external dynamics and emerge stronger from the COVID-19 crisis. EverGreen is a bold strategy to deliver superior and balanced growth and the next evolution of our HEINEKEN business.

Our EverGreen priorities are as follows:

## OUR 2022 FOCUS



### DRIVE SUPERIOR GROWTH

- With consumer centricity, we shape and lead the premium category and continue investing behind our brands.



### FUND THE GROWTH, FUEL THE PROFIT

- Cost and value to drive efficiency to enable reinvestments into our brands and business.



### RAISE THE BAR ON SUSTAINABILITY AND RESPONSIBILITY

- Full commitment to deliver on our ambition to become net zero carbon in our productions by 2030 and the full value chain by 2040.



### BECOME THE BEST CONNECTED BREWER

- Accelerate digital and technology to create a Unified Customer Ecosystem with a customer and consumer-first approach.



### UNLOCK THE FULL POTENTIAL OF OUR PEOPLE

- Promote a high-performance culture that boosts our strategic capabilities, nurture the best talents, and foster an organisation where people thrive.

## ACKNOWLEDGEMENTS

I would like to welcome Christiaan Johannes Folkerts (Karsten) who joined us in June 2021 as Finance Director, replacing Szilard Voros who has left the HEINEKEN Group. Prior to joining us, Karsten was Head of Finance, Procurement and Digital & Technology for HEINEKEN's business in the Philippines. He joined the HEINEKEN Group in 2007 as a Finance Management Trainee and has taken on increasingly senior roles in HEINEKEN's businesses in the Netherlands and Brazil. I take this opportunity to thank Szilard for his contributions to the Group.

I would also like to thank Aileen Aumentado who supported us as Interim Human Resources Director for five months from December 2020. In April 2021, we welcomed Victoria Ang as our new People Director. Victoria brings on board more than two decades of experience in the HR field having worked with American and European organisations in sectors including consumer goods, manufacturing as well as shared services.

The past two years have been extraordinarily challenging. I would like to also put on sincere appreciation to our shareholders, business partners,

customers, consumers and most importantly our employees who have persevered through this storm together and now emerge stronger than ever. Striving to win in the market, our One Strong Winning Team will continue to be driven by our purpose – to brew the Joy of True Togetherness to inspire a better world.

Thank you.

**Roland Bala**  
Managing Director  
15 March 2022