HEINEKEN

HEINEKEN MALAYSIA BERHAD

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THIRD FINANCIAL QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 2017

The Board of Directors of Heineken Malaysia Berhad ("the Company") wishes to announce the unaudited results of the Group for the third financial quarter and nine months ended 30 September 2017.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		INDIVIDUAL PERIOD 3 MONTHS ENDED 30 September 2017 RM'000	CUMULATIVE PERIOD 9 MONTHS ENDED 30 September 2017 RM'000
1.	Revenue	509,588	1,317,278
2.	Operating expenses	(414,152)	(1,075,354)
3.	Operating profit	95,436	241,924
4.	Interest income/(expense)	(773)	(1,846)
5.	Profit before tax	94,663	240,078
6.	Taxation	(28,795)	(63,656)
7.	Net profit for the period	65,868	176,422
8.	Profit attributable to owners of the Company	65,868	176,422
9.	Total comprehensive income attributable to owners of the Company	65,868	176,422
10.	Earnings per share :		
(a)	Basic (based on 302,098,000 stock units) (sen)	21.80	58.40
(b)	Fully diluted	N/A	N/A

On 25 November 2015, the Company announced the change of financial year end from 30 June to 31 December. The last audited financial statements were for an 18-month reporting period from 1 July 2015 to 31 December 2016. As such, there are no comparative figures for the preceding year corresponding periods.

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Group's Annual Audited Financial Statements for the 18 months financial period ended 31 December 2016.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	UNAUDITED AS AT 30 September 2017 RM'000	AUDITED AS AT 31 December 2016 RM'000
Non-current assets		
Property, plant and equipment	221,869	221,687
Intangible assets	24,938	33,509
Deferred tax assets	-	10,371
Other receivables	16,296	21,609
	263,103	287,176
Current assets		
Inventories	73,727	61,892
Trade and other receivables	386,347	447,977
Current tax assets	-	12,551
Cash and cash equivalents	16,188	4,045
	476,262	526,465
Current liabilities		
Trade and other payables	371,275	292,279
Current tax liabilities	3,409	16,326
Borrowings	90,000	74,000
	464,684	382,605
Net current assets	11,578	143,860
	274,681	431,036
Financed by:		
Capital and reserves		
Share capital	151,049	151,049
Reserves		
Retained earnings	115,830	241,506
Shareholders' funds	266,879	392,555
Non-current liabilities		
Deferred tax liabilities	7,802	38,481
	274,681	431,036
	274,681	431,036
Net Assets per share attributable to owners of the Company (RM)	0.88	1.30

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HEINEKEN MALAYSIA BERHAD
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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2017

	9 MONTHS ENDED 30 September 2017 RM'000	18 MONTHS ENDED 31 December 2016 RM'000
Cash flows from operating activities		
Profit before tax	240,078	549,223
Adjustments for:		
Amortisation of intangible assets	11,502	17,308
Depreciation of property, plant and equipment	26,166	52,017
Loss on disposal of property, plant and equipment	10,816	13,272
Amortisation of prepaid contractual promotion expenses	35,050	92,203
Interest expense	2,651	4,784
Interest income	(805)	(2,956)
Reversal of impairment losses	-	(272)
Unrealised foreign exchange differences	(13)	(70)
Operating profit before changes in working capital	325,445	725,509
Movements in working capital		
Inventories	(11,835)	(12,843)
Receivables, deposits and prepayment	31,894	(238,243)
Payables and accruals	(41,831)	99,342
Cash generated from operations	303,673	573,765
Tax paid	(84,330)	(123,438)
Interest paid	(2,651)	(4,784)
Net cash from operating activities	216,692	445,543
Cash flows from investing activities		
Acquisition of property, plant and equipment	(39,809)	(69,695)
Acquisition of intangible assets	(688)	(17,500)
Interest received	805	2,956
Proceeds from disposal of property, plant and equipment	402	2,300
Net cash used in investing activities	(39,290)	(81,939)
Cash flows from financing activity		
Dividends paid	(181,259)	(410,853)
Drawdown/(Repayment) of borrowings	16,000	(1,000)
Net cash used in financing activity	(165,259)	(411,853)
Net change in cash and cash equivalents	12,143	(48,249)
Cash and cash equivalents at beginning of year	4,045	52,294
Cash and cash equivalents at end of period	16,188	4,045

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2017

	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 **30 September 2017**				
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**
18 months ended **31 December 2016**				
Balance at 1 July 2015	151,049	-	225,099	376,148
Total comprehensive income for the period	-	-	427,260	427,260
Dividends paid / payable	-	-	(410,853)	(410,853)
Balance at 31 December 2016	**151,049**	**-**	**241,506**	**392,555**

On 25 November 2015, the Company announced the change of financial year end from 30 June to 31 December. The last audited financial statements were for an 18-month reporting period from 1 July 2015 to 31 December 2016. As such, there are no comparative figures for the preceding year corresponding period.

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Group's Annual Audited Financial Statements for the 18 months financial period ended 31 December 2016.

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 and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the Group's annual audited financial statements as at and for the 18-month period ended 31 December 2016.

Certain comparatives were restated to conform with the disclosure for current reporting period.

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 18-month period ended 31 December 2016.

3. **Realised and Unrealised Profits/Losses**

	As at 30 September 2017 RM'000
Total retained profits / (accumulated losses) of the Company and its subsidiaries :	
- Realised	145,808
- Unrealised	(31,139)
	114,669
Less: consolidation adjustment	1,161
Total group retained profits / (accumulated losses) as per consolidated accounts	115,830

4. **Audit Report on Preceding Annual Financial Statements**

The Group annual audited financial statements for the 18-month period ended 31 December 2016 were not qualified.

5. **Seasonal or Cyclical Factors**

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

6. **Exceptional Items**

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

7. **Changes in Estimates**

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

8. Debt and Equity Securities

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

9. Dividends Paid

	9 months ended 30 September 2017 RM'000
Final Dividend paid on 16 May 2017	
2016 - 60 sen per stock unit tax exempt	181,259
	181,259

On 26 July 2017, 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 2017. The said dividend was paid on 9 October 2017.

10. 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.

11. Property, Plant and Equipment Valuation

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

12. 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 2017.

13. 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.

14. Changes in Contingent Liabilities or Contingent Assets

There were no material changes in contingent liabilities or contingent assets for the quarter ended 30 September 2017.

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.

14. Changes in Contingent Liabilities or Contingent Assets (Continued)

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 report 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.

15. Capital Commitments

Capital commitments not provided for in the financial statements as at 30 September 2017 are as follows:

	RM'000
Property, plant and equipment	
Authorised but not contracted for	16,638
Authorised and contracted for	23,948
	40,586

16. 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 goods	15,850
Sale of products	4,376
Royalties paid/payable	23,772
Fees paid/payable for professional services	6,794
Marketing and advertising services fee received/receivable	15,375

All Related Party Transactions had been entered into in the ordinary course of business on normal commercial terms. These transactions are within the ambit of the general mandate approved by the shareholders of the Company on 13 April 2017.

17. Review of Performance

For purpose of reference, the Company has provided an analysis on the performance for the following periods:

Quarter ended 30 September 2017 versus the corresponding quarter in 2016

	3 months ended 30 September 2017 RM'000	3 months ended 30 September 2016 RM'000	% Change +/(-)
Revenue	509,588	384,816	32.4%
Profit before tax	94,663	74,885	26.4%

Despite low consumer sentiment in the market during the period, Group revenue grew by 32.4% as compared to the corresponding quarter in 2016 driven by volume growth as the market in the corresponding period last year was recovering from volume impact as a result of price increase that occurred in July 2016, and favourable brand mix this year. Group revenue in the quarter also received a boost in the cider category following the successful launch of HEINEKEN Malaysia's new mainstream cider brand Apple Fox in August 2017 and the commencement of sale of locally brewed Strongbow Apple Ciders.

Group Profit Before Tax ("PBT") grew by 26.4% as a result of the growth in Group revenue, offset partially by high commercial spend in the period for brand launches and off-trade activities and timing of other expenses.

9 months ended 30 September 2017 versus the corresponding period in 2016

	9 months ended 30 September 2017 RM'000	9 months ended 30 September 2016 RM'000	% Change +/(-)
Revenue	1,317,278	1,303,242	1.1%
Profit before tax	240,078	224,705	6.8%

Group revenue was marginally higher as compared to the corresponding period in 2016 as growth in Q3 2017 mitigated the subdued results in the first half caused by an earlier Chinese New Year in 2017 which resulted in higher deliveries at end 2016 and higher sales made in anticipation of the price increase implemented on 1 July 2016. Group revenue in the period benefitted from new innovation products launched to support the Group's iconic brand portfolio, including Guinness Bright, Apple Fox Cider & locally brewed Strongbow Apple Ciders.

PBT improved by 6.8% as a result of effective execution of the Company strategies, efficiency gains from supply chain, and improvements arising from the management's continued focus on cost optimization throughout the organisation.

17. Review of Performance (Continued)

Quarter ended 30 September 2017 versus 30 June 2017

	3 months ended 30 September 2017 RM'000	3 months ended 30 June 2017 RM'000	% Change +/(-)
Revenue	509,588	406,576	25.3%
Profit before tax	94,663	80,931	17.0%

Group revenue increased by 25.3% as compared to the preceding quarter driven by high volume growth in the current quarter from strong marketing campaigns, and improved brand mix. In addition, launches of new cider brand, Apple Fox, and locally brewed Strongbow Apple Ciders in the quarter under review contributed to the improvements in Group revenue.

Group PBT grew by 17% due to higher revenue, offset partially by higher commercial spend in the period to support marketing campaigns, brand launches and off-trade commercial activities and timing of other expenses.

18. Prospects

The Group remains cautious regarding the market outlook as consumer sentiment remains below optimism threshold, and high consumer price index (CPI) negatively impacts consumer spending and exacerbates the threat of a growing contraband market.

However, the Group is prepared to face these challenges and continue growing its iconic portfolio of brands, strengthening commercial strategies and execution, and improving efficiencies through cost optimization.

19. Variance from Profit Forecast

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

20. Taxation

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

	3 months ended 30 September 2017 RM'000	9 months ended 30 September 2017 RM'000
Taxation		
Malaysian - current	23,078	62,573
Malaysian - prior year	1,383	1,383
	24,461	63,956
Deferred taxation		
Malaysian - current	1,934	(2,700)
Malaysian - prior year	2,400	2,400
	4,334	(300)
	28,795	63,656

The Group's effective tax rate for the current year to date under review of 26.5% is higher than the statutory tax rate of 24.0% mainly due to a one-off prior year taxation and prior year deferred taxation under provision recognized in the current year.

21. Status of Corporate Proposals

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

22. Group Borrowings and Debt Securities

Total Group borrowings as at 30 September 2017 are as follows:

	As at 30 September 2017 RM'000	As at 30 September 2016 RM'000
Current - Unsecured		
Revolving credit & trade financing	90,000	50,000
	90,000	50,000

The Group utilized its short term borrowings to support its working capital requirements and commercial activities in the period. The higher borrowings in the period as compared to the same period last year is mainly due to the timing and phasing of cash collections in the 9 months ended 30 September 2017 following more muted Q1 2017 sales with the early festive period sell-in in 2016, exacerbated by timing of higher cash payments needed for commercial activities in Q3 2017 and prior year related tax payments made in Q3 2017 that will be recovered at a later date.

23. 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	8,197	8,163	34

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

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

There is minimal credit and market risk as the forward contracts are executed with creditworthy financial institutions. 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.

24. Notes to the Statement of Comprehensive Income

	9 months ended 30 September 2017 RM'000
Depreciation and amortisation	37,668
Loss on derivatives	34
Provision for and write-off of inventories	5,398

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 2017.

25. 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.

26. Dividend

The Board of Directors does not recommend any dividend to be paid in respect of the quarter ended 30 September 2017.

Total dividend declared for the 9 months ended 30 September 2017 is 40 sen per stock unit comprising a single tier Interim Dividend of 40 sen per stock unit, paid on 9 October 2017.

27. Earnings Per Share

(a) Basic Earnings Per Share

Basic earnings per share for the 9 months period under review is calculated by dividing the net profit attributable to the shareholders of RM176,422,000 by the weighted average number of ordinary stock units outstanding as at 30 September 2017 of 302,098,000.

(b) Diluted Earnings Per Share

Not Applicable.

For and on Behalf of the Board

Hans Essaadi
Managing Director

21 November 2017