

BREWING FOR A BETTER TODAY

ANNUAL REPORT 2016

TOMORROW

&





Our theme – **Brewing for a better today and tomorrow** reflects the unique heritage of Carlsberg and is aligned with our ambition for the future – that of *pursuing perfection every day*. Here at Carlsberg Malaysia Group, we strive to brew high quality beers; beers that stand at the heart of moments that bring people together. We don't settle for immediate gain, but focus our efforts on creating a better tomorrow for all of us.

COVER RATIONALE

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CARLSBERG MALAYSIA GROUP **AT A GLANCE**

Incorporated in 1969, Carlsberg Brewery Malaysia Berhad (Carlsberg Malaysia Group) is part of the Carlsberg Group, one of the leading global brewers with strong market positions across Western and Eastern Europe as well as Asia.

Carlsberg Malaysia Group is a dynamic brewer with businesses in Malaysia and Singapore as well as an investment in Sri Lanka. We also have a regional reach via exports to markets such as Thailand, Taiwan, Hong Kong, Cambodia and Laos.

Our international portfolio of brands comprises Carlsberg, complemented by our latest product innovation Carlsberg Smooth Draught and our strong beer Carlsberg Special Brew; premium brands Kronenbourg 1664 lager, Kronenbourg 1664 Blanc, Asahi Super Dry, Somersby cider available in Apple, Pear, Blackberry and Blueberry flavours as well as the imported third-party beer brand Corona Extra. Our local brands are Connor's Stout Porter, SKOL, Royal Stout, Jolly Shandy and Nutrimalt.

Our new corporate strategy, SAIL'22 guide us toward our ambition to be a successful, professional and attractive brewer in our markets: successful by delivering sustainable organic top- and bottom-line growth; professional by being the preferred supplier of our customers; and attractive by delivering value for shareholders, employees and society.

At Carlsberg Malaysia Group, we appreciate and observe the 'Golden Words' of our founder J.C. Jacobsen. We pursue perfection everyday; we strive to brew high quality beers; we don't settle for immediate gain, when we can create a better tomorrow for all of us. This sets the foundation of our Purpose: **Brewing for a better today and tomorrow.**



Sri Lanka

25%

Lion Brewery Ceylon PLC



Share of loss

RM5mil

in 2016 against a RM16 million profit in 2015

Revenue in 2016

RM1,096 mil



Malaysia

100%

Carlsberg Marketing Sdn. Bhd.



Revenue in 2016

RM583 mil



Singapore

100%

Carlsberg Singapore Pte. Ltd.



51%

MayBev Pte. Ltd.



CHAIRMAN'S ADDRESS

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the Annual Report and Audited Financial Statements of Carlsberg Brewery Malaysia Berhad (Carlsberg Malaysia Group) for the financial year ended 31 December 2016.

In 2016, the Carlsberg Malaysia Group delivered a moderate growth despite a turbulent operating environment. Our Malaysia and Singapore operations adopted SAIL '22, the seven-year strategic plan of Carlsberg Group and tailored its strategic priorities to the local market in our quest to become a more successful, professional and attractive company. Implementation of the strategic plan is led by our new Managing Director, Mr. Lars Lehmann, who took over the helm of the Carlsberg Malaysia Group on 1 July 2016.

I am confident that with the successful execution of these strategies, we will enhance the performance of the Carlsberg Malaysia Group and continue to increase the value of the company for our shareholders. Further details of the strategies are covered in the Managing Director's Message and Management Discussion and Analysis of this Annual Report.

The theme of our 2016 Annual Report, "*Brewing for a better today and tomorrow*" is our purpose statement, as aligned with the Carlsberg Group. We are not just a beer company; we are a brewer with a rich heritage and a suite of reputable brands. Bringing our purpose to life reinforces the Carlsberg founder, J.C. Jacobsen's resolve regarding the importance of quality and the pursuit of perfection while creating a better today and tomorrow for the communities we live in. This is further elaborated in the Sustainability Statement of this report.

MARKET CHALLENGES PERSIST

The year 2016 was a challenging year for the Group. The overall business environment was confronted with flagging macroeconomic conditions and weak consumer sentiment. Severe floods in Sri Lanka in May also had a significant adverse impact on our associate company there. On top of all these, we also had to cope with several regulatory changes locally.

On 1 March 2016, the Ministry of Finance announced an amendment to the Excise Act 1976 [Act 176] subsection 6 (1) which revamped the excise duty structure from one solely focused on volume plus Ad Valorem Tax, to one dictated by Alcohol By Volume (ABV) content. The ultimate effect of this was a hike on excise duties for beer and stout ranging from 11% to 95% depending on the ABV content of the product.

On 27 May 2016, the Ministry of Health gazetted the Food (Amendment) Regulations 2016 to the Food Act 1983 [Act 281]. This new regulation mandates that all retail outlets are to carry and display the health warning statement "MEMINUM ARAK BOLEH MEMBAHAYAKAN KESIHATAN" ("Drinking alcohol is bad for health"). Additionally, signages on the prohibition of the sale of alcohol beverages to individuals below the age of 21 years are to be displayed. This regulation, which is set to take effect on 1 December 2017, is likely to further constrain trade in an already challenging market.

On 1 November 2016, the Ministry of Finance imposed several new decrees under the Customs Act 1976 [Act 235] which has adversely affected trade in the duty-free islands of Langkawi, Labuan and Tioman. This includes the imposition of a quota system and licenses for distributors and retailers on these islands.

Government officers have also been deployed to monitor the sale of liquor at duty-free locations. These measures are causing great inconvenience to retailers and negatively impacting consumption and sales but unfortunately has actually done little to curb the contraband problem the industry is facing at non-duty-free locations.

A more positive development was the decision by the government to defer the implementation of security ink marking on all locally produced beer and stout products. This was originally scheduled to have taken effect on 1 June 2016. Whilst we laud the Ministry of Finance's intentions to curb smuggling activities, we disagree with the reintroduction of security ink marking which was ineffective when previously implemented. We do not believe that security ink marking would be an effective measure to address the contraband issue as locally brewed products already can be easily differentiated from imported products which have security tax stamps on them. To the contrary, the imposition of security marking would add more costs to the locally produced beer and stout.

Across the causeway, Carlsberg Singapore Pte. Ltd. experienced a more stable operating environment despite the cyclical downturn in its economy and a high excise duty environment. Singapore has the second highest excise duty rate in the world. The high beer duty, which is disproportionately higher than duty on wines and spirits, has resulted in a demanding market environment.

As I mentioned earlier, our associate company in Sri Lanka, Lion Brewery (Ceylon) PLC suffered a devastating flood in May 2016. Lion Brewery had to shut down production for nearly seven months. This caused the Carlsberg Malaysia Group to suffer a share of loss amounting to RM5.1 million as compared

Together with the interim dividend of 5.0 sen per ordinary share paid on 7 October 2016, the total declared and proposed dividends for the financial year 2016 will be 72.0 sen per ordinary share, maintaining the dividend payment for 2015. This translates to a payout of 104.5% of the Profit After Tax (PAT) of 2016.



to a share of profit of RM16.1 million in 2015, a reversal impact of RM21.2 million. Lion Brewery resumed production in late November 2016 and is gradually getting back to normal.

The finer details on the Carlsberg Malaysia Group's initiatives to address the challenging market conditions are disclosed in the Managing Director's Message and Management Discussion and Analysis in this Annual Report.

A MODEST GROWTH AMIDST CHALLENGES

In 2016, the Carlsberg Malaysia Group delivered a modest organic growth with improved cash flow. Revenue of the Group grew 1.2% to RM1.68 billion year-on-year. However, the Group posted a net profit of RM205.0 million, a 5.1% decline against 2015. Adjusted for the share of results in both years from our associate company Lion Brewery, the Group's underlying net profit grew 5.1% to RM210.0 million from RM199.8 million.

Against the backdrop of the substantial increase in excise duties in both our Malaysia and Singapore operations and the flood-related disruption in Lion Brewery, I believe the Group delivered a commendable performance. This was driven mainly by our portfolio premiumisation efforts and effective value management. The launch of Carlsberg Smooth Draught, successful activation of the UEFA EURO 2016™ campaign in both Malaysia and Singapore, as well as the local production of Somersby Apple Cider, have contributed positively to our bottom line.

SUSTAINABLE SHAREHOLDER VALUE CREATION

Despite a lower net profit, we remain confident of our strong business

fundamentals. The Board of Directors is pleased to recommend a final and special single tier dividend of 67.0 sen per ordinary share, subject to shareholders' approval at the forthcoming annual general meeting on 20 April 2017. Together with the interim dividend of 5.0 sen per ordinary share paid on 7 October 2016, the total declared and proposed dividends for the financial year 2016 will be 72.0 sen per ordinary share, maintaining the dividend payment for 2015. This translates to a payout of 104.5% of the Profit After Tax (PAT) of 2016.

MOVING FORWARD

Malaysia's economy is expected to grow moderately by 4.4% in 2017 as compared to 4.2% in 2016, supported by domestic consumption which is expected to remain relatively resilient despite persisting weak sentiments. Sustained infrastructure spending from several government-driven mega infrastructure projects is expected to help boost demand. The momentum will likely be fuelled by a number of catalysts outlined under the 11th Malaysian Plan (2016-2020).

Meanwhile Singapore's economy is expected to grow at a modest pace of between 1.0% to 3.0% in 2017 as compared to a 2.0% growth in 2016. Externally-oriented sectors such as manufacturing as well as the transportation and storage sectors are likely to provide support for Singapore's economic growth.

IN APPRECIATION

On behalf of the Board of Directors, I would like to warmly welcome our new Managing Director, Mr. Lars Lehmann, who was the Regional CEO, Western Europe Challenger Markets of the Carlsberg Group. I would also like to put on record our appreciation of

the significant contributions made by Mr. Henrik Juel Andersen, the former Managing Director of Carlsberg Malaysia Group. Mr. Andersen has been appointed Managing Director of Lao Brewery Company Ltd., a part of the Carlsberg Group.

I would like to take this opportunity to welcome Mr. Olivier Dubost, the Vice President Commercial, Asia of the Carlsberg Group, who was appointed to the Board of Directors of Carlsberg Malaysia as a non-executive, non-independent Director on 28 November 2016. We bid farewell to Mr. Christopher John Warmoth, who resigned from the Board on the same day. We wish Mr. Warmoth every success in his new role as Executive Vice President, Corporate Strategy of the Carlsberg Group.

I also welcome the appointment of Mr. Yee Chin Beng as Chief Financial Officer and Company Secretary of the Group on 6 February 2017. At the same time, I wish to recognise the worthy services rendered by the former Chief Financial Officer and Company Secretary, Mr. Lew Yoong Fah, who has been re-designated as Government Affairs and Duty Free Director.

To our valued shareholders and stakeholders, thank you for your unwavering confidence in our brands, our people and our sustainability programmes. With your continued support, we are confident of achieving our ambition of becoming a more successful, professional and attractive beer company.

Dato' Lim Say Chong

Chairman

Shah Alam
20 March 2017

OUR PORTFOLIO OF BRANDS



Connor's Stout Porter

Inspired from the 1700's British Stout Porter recipe, this premium draught stout is "Just Made Right" to deliver its crisp texture, creamy foam and gentle roasty undertones.



Kronenbourg 1664 Blanc

This French premium wheat beer is presented in a light blue coloured bottle accentuating its cloudy liquid and unique smooth-taste with hints of citrus and coriander spice that enable consumers to "Taste the French Way of Life".



Somersby Apple cider

Made from real apple juice, this sweet, bubbly and refreshing cider has captivated the hearts of cider lovers and is best served over ice to get #ThatWeekendFeeling.

Carlsberg Malaysia

In addition to the key brands shown above, our portfolio of brands also includes these beer, stout, shandy and non-alcoholic malt beverage brand.



For more info, please visit carlsbergmalaysia.com.my

Carlsberg Singapore

Apart from the key brands shown above, we also offer a dynamic range of alcoholic beverages as featured here.



For more info, please visit



Carlsberg

Probably the best beer in the world, Carlsberg is an international beer brand available worldwide. Brewed with our secret ingredients Carlsberg Aroma Hop and Saccharomyces Carlsbergensis yeast, it is a refreshing and uniquely distinctive pilsner with a malty backbone and balanced bitterness.



Asahi Super Dry

This, Japan's No.1 premium beer, is brewed in a unique "Karakuchi" style to give a clean, crisp and refreshing taste with no bitterness.



Carlsberg Smooth Draught

Brewed longer for its signature smoothness with an easy finish, Carlsberg Smooth Draught is our latest product innovation specially crafted for consumers to enjoy the smooth sensation of a freshly tapped beer in a bottle or can.

LION BREWERY (CEYLON) PLC



Carlsberg is the no.1 international premium beer in Sri Lanka, completed by its strong beer variant Carlsberg Special Brew. In addition, our associate company has the country's top selling brand, Lion beer and its range of variants and other brands as shown here.





UEFA
EURO2016
FRANCE

Official Beer

Probably the Best Football Experience brought to life with the best seats in the stadium to **watch UEFA EURO 2016™ Semi-final match LIVE** and **"Play on Pitch"** experience.

Winners were granted access to players' locker rooms, stepped foot on the same semi-final pitch - Stade de Lyon via players' tunnel and pitted their football skills against **football legends** like David James, Steve McManaman, Peter Schmeichel and others!

Limited edition
UEFA EURO
2016™
design on 640ml bottle
labels and 320ml cans



堪称全球最佳啤酒。
Probably the best beer in the world.

OUR FLAGSHIP BRAND OF HIGH QUALITY AND STRONG ASSOCIATION WITH FOOTBALL **CARLSBERG**

Strengthened brand equity with Probably the Best Year [20一流 – 堪称最佳新年] Chinese New Year campaign, Probably the Best Research national promotion in Malaysia and the second edition of Probably the Best Job consumer engagement campaign in Singapore.



SINGAPORE



MALAYSIA



Our digital activities achieved great exposure with

Over **1.2 million** views of 4 EURO branded videos on social media in Malaysia and

Over **2.4 million** engagements on Singapore's social media platform during the tournament.

Malaysian YouTuber Reuben Kang Instagram posts with Man of the Match, Cristiano Ronaldo garnered over **9,000 likes** whilst

SGAG in Singapore achieved a total of **1.7 million** views and 11,500 engagements.

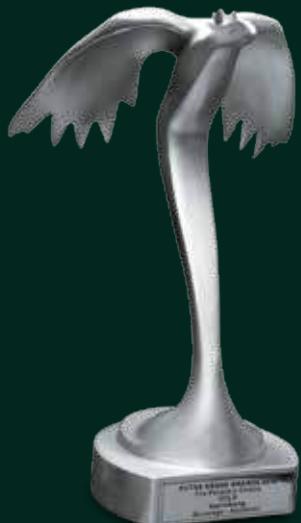
Probably the best beer since 1847, reaffirmed once more.

Thank you for voting us as your favourite beer brand for 7 years straight.



Probably the best beer in the world.

AWARD WINNING CARLSBERG



Putra Brand Awards 2016
Gold in alcoholic beverages category

“Probably the Best Job in the World”

advertising campaign concluded in 2015 with great success. The campaign bagged six acclaimed awards in 2016 as shown below:



Singapore Media Awards 2016

- **Best Use of Newspaper**
- **Most Progressive International Brand**



Malaysia Effie Awards 2016

- **Silver in Beverages/Alcoholic category**

Marketing Excellence Awards 2016 Malaysia

- **Gold for “Excellence in Experiential Marketing”**
- **Gold for “Excellence in Customer Engagement”**
- **Silver for “Excellence in Marketing to a Male Audience”**

OUR PROUD PRODUCT INNOVATION **CARLSBERG SMOOTH DRAUGHT**

SINGAPORE



Positive growth momentum in Malaysia and Singapore since nationwide roll-out in April and July respectively

Brewed longer for a smoother beer with an **easy finish**

Its **cold hopping technique** enhances the brew's distinctive **aromatic flavour**

It offers the **smooth sensation** of a freshly tapped beer anytime anywhere!

Massive sampling to promote the new brew and engage with consumers

With **4.8% ABV** content, it is available in both 580ml bottles and 320ml cans

MALAYSIA





Probably the
Smoothest
Beer
in the World

MALAYSIA AND SINGAPORE BEST SELLING CIDER

MALAYSIA



+26.7%

volume growth in 2016
vs 2015

156,000

people sampled in Malaysia
in 2016



Somerita

is a fun and quirky drinking ritual
of Somersby in a bottle served
upside down over crushed ice

Somersby Blackberry cider

was launched as a permanent variant in Malaysia

SINGAPORE



Somersby Apple cider

in 320ml cans launched in Malaysia and Singapore

Somersby Blueberry cider

was launched as a festive variant in Singapore

OUR LEADING AND FASTEST GROWING CIDER **SOMERSBY**



4.5%
ALCOHOL



THE MOST SOLD FRENCH BEER IN THE WORLD

KRONENBOURG 1664

Opening up **new drinking occasions**

with the launch of Kronenbourg 1664 Blanc 320ml cans in Malaysia and Kronenbourg 1664 lager 320ml cans in Singapore



Brought alive **“Taste the French Way of Life”** with **“Le Moment”** campaign and Office Soirée activations in 2016.

MALAYSIA



SINGAPORE



Brewed with the caviar of noble hops – **Strisselspalt Hops, Kronenbourg 1664 Lager** offers exquisite aromatic flavour.

+25.6%
volume growth in
2016 vs 2015

OUR PREMIUM JAPANESE BEER **ASAHI SUPER DRY**



+6.5%
Volume growth in 2016 vs 2015

Brewed in a unique
“Karakuchi”
style that gives a clean, crisp,
refreshing taste with no bitter
aftertaste



Igniting Possibilities
by spearheading
electronic dance music



JAPAN'S **No.1**
PREMIUM BEER AND
BEST-SELLING FOR
17 CONSECUTIVE YEARS
IN JAPAN

