

Questions from

MSWG

MINORITY SHAREHOLDERS WATCH GROUP



Q&A FROM MSWG - 1

Operational & Financial Matters

1. Carlsberg group posted a net profit of RM201.0 million for FY2021, an increase of 23.9% on the back of flat revenue of RM1.8 billion year-on-year. The strong growth in bottom-line was driven by cost optimisation, innovation and premiumisation, while lower sales due to the suspension of brewery operations and dine-in restrictions in both markets affected top-line *(page 24 of Integrated Annual Report 2021 (IAR 2021)).*

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Q&A FROM MSWG – 1.a

Operational & Financial Matters

- a) Stringent cost controls, lower sales and administration expenses and better premium mix contributed substantially to the increase in net profit in FY2021. Is the increase in net profit sustainable, going forward?

Answer:

The lower S&A expenses are primarily the benefits we derived from a restructuring exercise carried out in 2020 and it will be a permanent cost avoidance. We will continue to exercise discipline in our cost management as part of the Funding The Journey initiatives. In addition, premiumization will continue to be one of our key priorities for growth. All these factors are the key pillars to sustain profit growth.

Q&A FROM MSWG – 1.b

Operational & Financial Matters

- b) What was the premiumisation (premium mix offerings) contribution to the Group's revenue and net profit in FY2021? Will portfolio premiumisation continue to be the growth drivers to expand the Group's revenue and margins? What is its expected revenue contribution to the Group moving forward?

Answer:

We do not disclose the percentage of premium mix contribution to the Group's revenue and net profit. Last year, we saw +15% volume growth in premium segments, a very encouraging result behind our investment in accelerating our premium brands. The growth was contributed by the successful launch of Connors in Can, Somersby Watermelon and 1664 Blanc Rosé. As we continue to accelerate premium this year, our premium brands will continue to drive revenue and profit growth.

Q&A FROM MSWG – 1.c

Operational & Financial Matters

c) With the relaxation of movement restrictions in the fourth quarter of 2021 and re-opening of economic sectors, what is the current sales performance of on-trade channel (restaurants, food court, hotels, pubs etc.) compared to pre-Covid?

Answer:

With the reopening of various economic sectors in Malaysia, we saw a promising recovery and positive sales in the on-trade channel, including events and functions. Coupled with the reopening of the borders for quarantine-free travel and tourism starting this April, we are hopeful that these will further accelerate our business recovery to pre-pandemic level.

Having said so, the prolonged closure of entertainment outlets will somehow limit the recovery.

Q&A FROM MSWG - 2

Operational & Financial Matters

2. Will the on-going Russia-Ukraine war have an impact on the Group's business and supply chain (include raw materials availability, import and export restrictions, logistic/transportation disruptions)? If yes, how and to what extent will the on-going Russian-Ukraine war impact the Group?

Answer:

At the moment, there is no direct impact to the Group's business and supply chain as we are not sourcing any materials from that region. However, the war will have an impact on the escalating commodity prices.

With the support of Carlsberg Group globally, we are monitoring the situation and working on mitigation actions.

Q&A FROM MSWG - 3

Operational & Financial Matters

3. In 2021, many of the Group's raw materials, including, but not limited to, barley and malt and various packaging materials, saw significant price increases. Alumina prices are expected to rise in 2022 compared to 2021 due to limited supply and high cost of production (*page 70 & 81 of IAL 2021*).

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Q&A FROM MSWG – 3.a

Operational & Financial Matters

a) What is the impact of rising commodity costs on the operating margins for the Group going forward?

Answer:

We experienced rising prices in commodities since last year and anticipate it to escalate further this year. Leveraging on Carlsberg's global procurement, we continue to hedge a substantial quantity of raw materials required for a year and have negotiated a fixed price to mitigate part of the costs impact.

That aside, we do constantly explore alternate suppliers for more competitive pricing. With structured mitigation plans, we remain hopeful that the rising commodity costs will not substantially impact the operating margins. We have also taken price adjustment in 2021 to help absorb part of the rising costs.

Q&A FROM MSWG – 3.b

Operational & Financial Matters

b) What is the ability of the Group to pass on these rising input costs to customers? Given the intense competition and price wars among the F&B players, how does the Group balance between preserving margins and passing on cost increases to its customers and/or consumers given the increasing commodity prices of aluminum (increased 30%-40%) and barley (increased 60%)?

Answer:

In addition to input costs, there are other factors that impact our pricing strategy. We believe in the value of our brands, which is complemented by our commitment to quality and innovation in our brews, thus always striking a reasonable balance between factors such as:

- Marketing investments for brand preference and loyalty;
- Provision of trade incentives vs. profitability; and
- Competitiveness of our brands in their respective categories (e.g. price points aimed for)

We have taken price adjustment in 2021 to help absorb part of the rising costs. We will continue to monitor the situation and will respond accordingly, taking into consideration the abovementioned factors and input costs, whilst striking a balance between price competitiveness and profitability.

Q&A FROM MSWG - 4

Operational & Financial Matters

4. The Group has written down inventories amounting to RM5.6 million in FY2021 (FY2020: RM2.6 million) (page 148 of IAR 2021).

- (a) What type of inventories were written down?
- (b) What factors had triggered the need to write down the value of the inventories?
- (c) Are further write downs of inventories (like the amounts in FY2021) expected in FY2022?

Answer:

- (a) Spares and raw materials.
- (b) The write off for spares are relating to the old bottling line that we will be replacing with new filling lines. For raw material, the write off was due to the damages sustained as a result of abrupt suspension of the manufacturing operations.
- (c) We do not expect any unusual or major write down of inventories in 2022.

QUESTIONS PRE-SUBMITTED BY SHAREHOLDERS

Due to time constraints, unanswered questions will be posted on our website (www.carlsbergmalaysia.com.my/investor-relations/company-announcements/annual-general-meeting) at the Company's discretion.



Q&A FROM SHAREHOLDERS - 1

CapEX Investment

What is the scope of works of approximately RM 100 million capital commitment in FY 2022. How is it benefit the results? Please explain and elaborate specifically in technical term and provide more detail information on the capex. Secondly, how does it benefit the result? Equal to EPS RM0.30. Fund by borrowing? Dividend affected?

K.W . Hong

What are the potential product innovation and efficiency/production volume increase from the RM110 million capex for Shah Alam production facility?

CM Teo

Any plan to increase production capacity and set up regional distribution center in South East Asia?

SC Foong

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Q&A FROM SHAREHOLDERS – 1

CapEX Investment

Answer: The RM110m CapEX investment will modernise our production facilities that delivers higher automation for greater efficiency. This will give greater filling capacity and better flexibility in packaging options, more conducive working environment as well as better sustainability performance in energy, water and waste management.

With the new line, we also anticipate lower operating costs in warehousing, utility, repair & maintenance, consumable & support cost. These reduction will offset the depreciation from the new capex.

We have a very solid balance sheet that allow us to fund our CapEX. We will balance the funding of this investment and our working capital need via internally generated funds and borrowings.

Dividend payout will take into account of the financial performance, capital requirements and expansion strategies of the Group.

We are currently one of the regional breweries within the Carlsberg Group, supplying products to other intercompanies in HK, Cambodia & Laos, as well as to our subsidiary in Singapore.

Q&A FROM SHAREHOLDERS - 2

Prosperity Tax

Is the company expected to be adversely impacted by cukai Makmur?

CM Teo

Will this capex (of RM110m) likely to offset majority of the cukai makmur? Any special tax allowance?

What is the length of year for the tax allowances on capex if spent.

K.W. Hong

Answer: Cukai Makmur (Prosperity Tax) is a one-off incremental tax imposed on the taxable income of more than RM100m for year assessment 2022. We expect the Group via its subsidiary to be impacted by this one-off incremental tax.

This CapEX will not be able to offset Cukai Makmur. This CapEX will result in higher carry forward unabsorbed capital allowance for Year 2022 that can be used to offset against taxable income.

We are in the process of applying for special reinvestment allowance (RA) incentive for this CapEX. Under the normal tax allowances of 20% initial allowance and 20% annual capital allowance, it will take 4 years to utilise the total tax allowances for the qualifying capital expenditure incurred.

Q&A FROM SHAREHOLDERS - 3

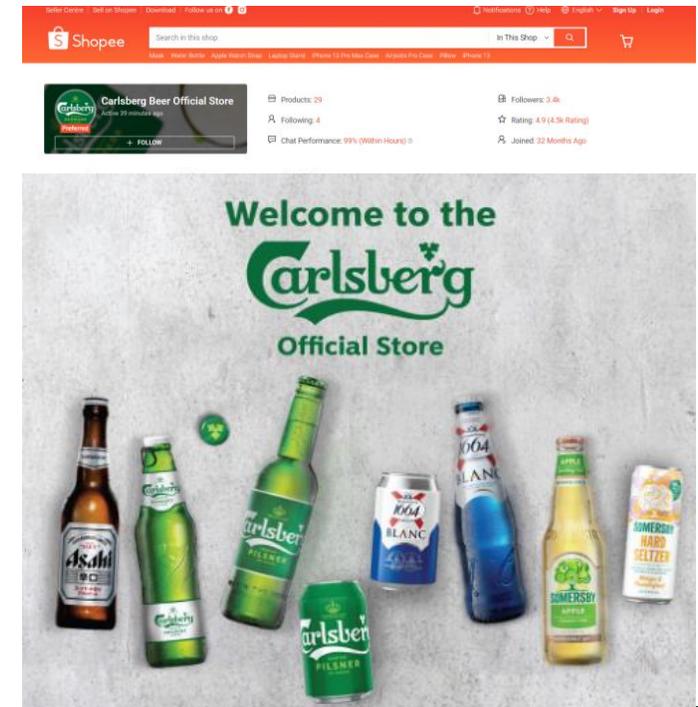
Doorgift

Would the Company consider giving shareholders cash vouchers to purchase Carlsberg beer from supermarkets since there is no door gift due to pandemic ?

*YM Loo/ LH Wong / CH Tan/ PS Thay/ CB Lam/
BK Lye/ CF Lee/ NY Yew/ YL Kuan/ KF Pang/
CM Lee/ YC Ngho/ WF Tee/ SC Yeow*

Answer: The Board is pleased to announce that we will give Shopee e-voucher worth RM50, as doorgift to the shareholders/proxies residing in Malaysia, who attended today's virtual AGM to purchase our portfolio of brews on the Carlsberg Beer official store in Shopee .

For shareholders/proxies who are based in East Malaysia, we will contact you to arrange for the delivery or collection of 6 cans Carlsberg Smooth Draught instead as Shopee fulfillment network limits to Peninsula Malaysia only.



Q&A FROM SHAREHOLDERS - 4

Market Capitalisation

What are the steps for Company to increase market capitalisation ?

LH Wong

Answer: Essentially, market capitalisation is correlated with share price movement that is purely driven by market demand.

We will continue focusing on our strategy that has proven successful in delivering shareholder value over the years.

We are honoured by the support and trust which our shareholders, investors and business partners continue to have in us.

Q&A FROM SHAREHOLDERS - 5

Bonus Issue and Dividends

What will you give to delight shareholders eg Bonus issue, double dividends as low dividends given compared to previous year?

YM Loo

Answer: We are honoured by the support and trust which our shareholders, investors and business partners continue to have in us.

We have no plans at the moment for a share buyback or bonus share programme to be part of our capital management strategy.

As for dividends, we have proposed a final single-tier dividend of 46 sen to be approved in this AGM. The total dividend for FY2021 is 56 sen, an increased of 40% from FY2020 dividend of 40 sen. This is equivalent to 85.2% of dividend payout ratio versus 75.4% in FY2020.

Q&A FROM SHAREHOLDERS - 6

Dividends

How can the Company increase dividend yield for share holders and your principal Company ?

LH Wong

Will Carlsberg be able to give a better dividend payment now that we are getting back to normalcy? Can it be around the same as the pre-pandemic levels?

Benedict Lopez

2021 DPR of 85% is higher than 2020 75%. With reopening of borders effective 1st April and expected improved performance from on trade segments as a result, will the board be looking at bringing back the dividend policy of 100% payout?

CM Teo

Why is dividend not quarterly payment like to other cash customer biz peer ?

CY Haw

Carlsberg Brewery Malaysia Berhad confidence to grow the dividend in coming years?

KP Ong

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Q&A FROM SHAREHOLDERS – 6

Dividends

Answer:

For the Board, we remain committed to drive shareholder value whilst ensuring we preserve our balance sheet to withstand headwinds that we may encounter.

In 2021, despite the longer lockdown period in total and 2.5 months of brewery suspension, the Company still managed to announce a total declared and proposed dividend for FY2021 of 56 sen. We are hopeful that the situation will show steady and sustainable improvement. Accordingly, the Board will constantly take into consideration the operating environment in determining the dividend policy.

Currently, the ongoing closure of entertainment outlets will continue to put a dent in our revenues. Also, the escalating commodity prices, further complicated by the Ukraine-Russia crisis, will also create additional cost pressure and uncertainties. So, we must continue to prioritise business sustainability, striking a balance of preserving cash and liquidity whilst still delivering shareholder value.

So, while we cannot give you a specific answer on the dividend policy, we can say the Board will take earnest consideration of all these factors in deciding the dividend payout for 2022.

Q&A FROM SHAREHOLDERS - 7

Challenges

What are the challenges Carlsberg anticipates in the years ahead?

BENEDICT LOPEZ

Answer: We are guided by SAIL'22, our global strategy since 2015. In March, the Carlsberg Group has announced our new five-year strategy – SAIL'27 that will continue to guide the Company forward from year 2023 onwards.

Our outlook remains cautious due to persevering effects of COVID-19 and government regulations and measures that will likely cause on-trade sales and consumer sentiment to remain sluggish. With the reopening of all economic sectors and Malaysia's borders for travel and tourism, we are hopeful that these developments will augur well for our business.

However, the increasing illicit beer trade in the country and the escalating commodity prices, further exacerbated by the Ukraine-Russia crisis, will also create additional costs pressure and uncertainties.

Nevertheless, the Group has put in place numerous measures to mitigate profit impact and preserve cash, being even more disciplined in implementing our 'Funding the Journey' initiatives and optimising cost structures aggressively to reallocate investments into viable channels and extend various support to our business partners.

Q&A FROM SHAREHOLDERS - 8

Alcohol-Free Brew

How is the performance of alcohol-free beer. In last AGM, the reply was it was too early to evaluate performance of these products

CM Teo

Answer: Currently, we only have alcohol-free brew (AFB) in Singapore – i.e. Carlsberg Alcohol Free Pilsner and Wheat variants. The AFB has certainly gained a lot of traction around the globe. However, its contribution is still minimal to total sales of the Group.

Leveraging on the potential and growing trend in AFB, we are pleased to announce that we will be launching our first alcohol-free brew in Malaysia this year.

Q&A FROM SHAREHOLDERS – 9

Exports

Any plan to increase more export sales and reducing local sales ?

James EY Ling

Answer: We remain committed to grow our volumes in both domestic and export markets.

Our main priority is to grow volume for our Malaysia and Singapore businesses. Export volume will provide economy of scales in our brewery investment, and we will continue to export to other countries such as Hong Kong, Laos, Cambodia as part of Carlsberg intercompany export volume and to third party export in countries like Maldives, Thailand and Papua New Guinea.

Q&A FROM SHAREHOLDERS – 10

Performance

Why is Carlsberg's business performance below to peers ie Heineken's?

CY Haw

Answer: We are pleased with our improved performance for the financial year ended 31 December 2021 (FY2021) and we are optimistic that we can continue improving our business performance for the years to come.

In Brewing for a Better Today and Tomorrow, we aim for constant improvements in quality, innovation, and relevant consumer engagements. We believe we have Probably the Best Portfolio of Beers, Stouts and Ciders, which is a strong competitive advantage both to our on-trade and off-trade customers.

We do not comment on our peer's performance.

Q&A FROM SHAREHOLDERS - 11

AGM minutes and Q&A

12. Will Carlsberg publish all Q&A from shareholders & MSWG to the company website? Will Carlsberg provide AGM Minutes to those shareholders who attend the AGM?

Will Carlsberg answer every single shareholder question raised by shareholders on AGM?

KP Ong

Answer: All shareholders pre-submitted Q&A, MSWG Q&A, AGM minutes and unanswered questions at the AGM due to time constraint will be published on the Company's corporate website post AGM. Notably, similar unanswered questions will be grouped together and posted on the website.

Please access to <https://www.carlsbergmalaysia.com.my/investor-relations/company-announcements/annual-general-meeting/> for the mentioned materials.

Q&A FROM SHAREHOLDERS – 12

New Product Innovation

Any plans to introduce new products?

SC Foong

Answer: At the end of last year, we introduced a new brew to our wheat beer portfolio - 1664 Rosé. In quarter one this year, we had also expanded Somersby variants by launching Somersby Passion Fruit & Orange cider.

As mentioned earlier and in the Integrated Annual report, we will launch alcohol-free brew in Malaysia this year.

Q&A FROM SHAREHOLDERS – 13

Performance

Will the profit of Carlsberg's associate company Lion Brewery in Sri Lanka be badly affected by the financial problems in country?

Walter Goon

Answer: Sri Lanka has been besieged by financial problems, with the situation deteriorating rapidly since March 2022. The operations of Lion Brewery has not been impacted thus far, although the operations are facing potential shortage of fuel and energy. The sales performance in March and thus far has been encouraging, buoyed by the festivity sales ahead of Sri Lanka New Year. As the situation remains uncertain & fluid, with the government exploring options with IMF to restructure the country's debt, we are not able to assess the impact. We remain confident that the Lion Brewery's management is taking the necessary actions to mitigate the risks.

Q&A FROM SHAREHOLDERS – 14

Performance

What is the ratio of on trade to off trade sales?

Walter Goon

Answer: We do not disclose the percentage of on trade vs off trade. We have seen the shift of sales moving from on trade to off trade during the pandemic, especially during the period of lock down. With the easing of lock down measures and eventual reopening of various economic sectors, we saw a promising recovery and positive sales in the on-trade channel.

Q&A FROM SHAREHOLDERS - 15

Directors

On 28 February 2022, Carlsberg appointed Datuk Lee Oi Kuan to the board. What is the justification in appointing a senior citizen to the board when its past her retirement age? What so special is her expertise to justify her appointment? Could not Carlsberg appointed someone much younger to the board?

BENEDICT LOPEZ

Answer: The most important selection criteria for an Independent and Non-Executive Director is the skillset required by the Board. The Group had recently conducted a Board Effectiveness Evaluation facilitated by ICDM, of which one of the identified gaps in skillset of the Board is expertise in legal, government affairs and sustainability.

Datuk Lee Oi Kuan was appointed as an Independent and Non-Executive Director of the Group.

Datuk Lee Oi Kuan has extensive experience in both legal and government affairs and sits on the Board of British American Tobacco (Malaysia) Berhad and its sustainability committee.

The Board highly values her skillset and commitment to the Group.