



CONNOR'S



**INSPIRED BY
ORIGINAL
BRITISH
STOUT
PORTER
RECIPE**

+71.9%

MALAYSIA



OUR PREMIUM DRAUGHT STOUT CONNOR'S STOUT PORTER

volume growth
in 2016 vs 2015



CONNOR'S
STOUT PORTER

**PAY
WHAT'S
RIGHT**

Join this special
promo hour where you can pay
RM2, RM4, RM6, RM8 or RM10
for a half pint of
Connor's Stout Porter.

A part of
**A NIGHT
MADE RIGHT**

Drink Responsibly Terms and conditions apply.

Brewed locally

for greater freshness,
it delivers a crisp texture,
creamy head and gentle
roasty undertones

A taste that's

JUST MADE RIGHT

for discerning stout drinkers

SINGAPORE



Extensive sampling with
“**PAY
WHAT'S
RIGHT**”
activation and promotion

MANAGING DIRECTOR'S MESSAGE AND **MANAGEMENT DISCUSSION AND ANALYSIS**

Dear Shareholders,

2016 was a tough year for Carlsberg Brewery Malaysia Berhad (Carlsberg Malaysia Group). We faced various headwinds in both our Malaysia and Singapore business whilst our Sri Lanka investment was severely affected by a devastating flood. Amidst these challenging conditions, we are pleased to deliver a solid underlying performance and continue to deliver respectable shareholder returns with a total declared and proposed dividends of 72.0 sen per ordinary share.

COMMENDABLE PERFORMANCE IN A CHALLENGING ENVIRONMENT

Our full year performance was severely impacted by the floods faced by our associate company Lion Brewery (Ceylon) PLC (LBCP) in Sri Lanka, the decline of our strong beer following the excise duties increase in Malaysia, coupled with the soft consumer sentiment in both Malaysia and Singapore.

On a positive front, our robust operating cost management (OCM) programme continued to deliver cost efficiencies whilst our value management initiatives enabled

us to improve our product mix in Malaysia and Singapore. We are also proud of the strong growth of Carlsberg Smooth Draught as well as our premium brands Somersby cider, Kronenbourg 1664 Blanc, Asahi Super Dry and Connor's Stout Porter.

The launch of Carlsberg Smooth Draught in Malaysia and Singapore, a Carlsberg product innovation that offers the smooth sensation of a freshly tapped beer in bottle and can, has been very positively received by consumers. It has also been growing in both distribution and consumption in the on-trade and off-trade. Total sales volume of Carlsberg and Carlsberg Smooth Draught registered a growth of 1.2% in 2016 compared to the previous year.

Our premium portfolio brands Asahi Super Dry, Kronenbourg 1664 lager, Kronenbourg 1664 Blanc, Somersby cider and Connor's Stout Porter recorded a double-digit growth of 18.7% in 2016. Somersby cider grew significantly by 26.7% making it the leading cider brand in both Malaysia and Singapore.

The change in the excise duties structure implemented on 1 March 2016 negatively affected our Malaysia

The launch of Carlsberg Smooth Draught, in Malaysia and Singapore, a Carlsberg product innovation that offers the smooth sensation of a freshly tapped beer in bottle and can, has been very positively received by consumers. It has also been growing in both distribution and consumption in the on-trade and off-trade. Total sales volume of Carlsberg and Carlsberg Smooth Draught registered a growth of 1.2% in 2016 compared to 2015.



operations with a decline of 22% in our strong beer sales. To cushion the impact of the duty increase, we had two rounds of price adjustments for our products to distributors and retailers. This took place in the months of March and July and resulted in an average price increase of 3% and 1.6% respectively.

We have also made adjustments to the alcohol content of Carlsberg Special Brew and Royal Stout and reduced the price of the products whilst ensuring their taste profile and quality remained superior. To streamline our strong beer portfolio, we have decided to delist SKOL Super in June 2017 to focus on Carlsberg Special Brew and Royal Stout going forward.

The tightening of legislation and stronger enforcement on the sale of liquor on the duty-free islands of Langkawi, Labuan and Tioman have resulted in a 13% decline in our duty-free sales. Working under the Confederation of Malaysian Brewers Berhad, we have had regular dialogues with the relevant authorities and trade associations to provide every support possible to help our customers on the affected islands.

The domestic economic headwinds in Singapore also dampened our business in the second half of 2016. Carlsberg Singapore registered a lower on-trade performance fuelled by weakening consumer sentiment, but continued to deliver growth in off-trade.

It was very unfortunate that our associate company, LBCP in Sri Lanka, which we own a 25% equity stake, had its production halted in May due to the havoc wreaked by floods. Although our Sri Lankan colleagues did extraordinary efforts to re-start the operations, it did not commence until November last year. The loss of revenue, write down of assets and higher operating costs from imported beer from other Carlsberg companies resulted in a RM5.1 million loss recognised in the Carlsberg Malaysia Group's result against a RM16.1 million profit in 2015.

SOLID UNDERLYING PERFORMANCE

Revenue of the Group grew by 1.2% to RM1.68 billion year-on-year mainly driven by higher export sales and a price increase in domestic market last year.

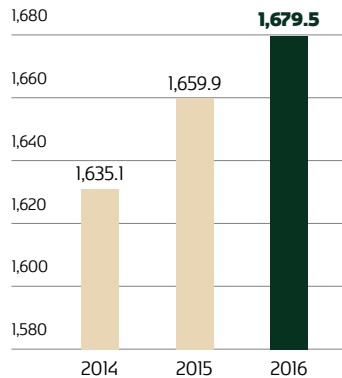
Profit before tax (PBT) was relatively flat at RM283.8 million as higher profit from operations was narrowed by a share of loss from LBCP compared to a share of profit in 2015. Profit after tax (PAT) was lower by RM9.6 million or 4.3% to RM210.7 million due to one-off tax adjustment relating to prior periods and a higher deferred tax expense.

Net cash generated from operating activities of the Group improved by 18.0% to RM263.4 million (2015: RM223.2 million) as a result of better management of working capital.

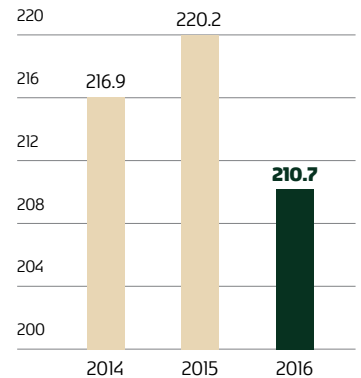
Gearing ratio of the Group remained at a healthy level of around 10% in relation to total equity. Total assets of the Group were RM661.5 million (2015: RM661.8 million) while total equity reduced marginally due to higher dividend payout, which was 104.5% of the net profit for the year.

An analysis of the financial results of the Group's operations in Malaysia, Singapore and Sri Lanka is available in the section 'Our Business Operations and Brands' on pages 30 to 36.

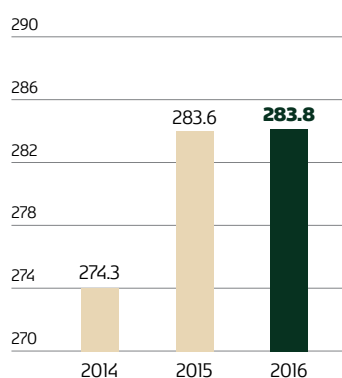
Revenue (RM Million)



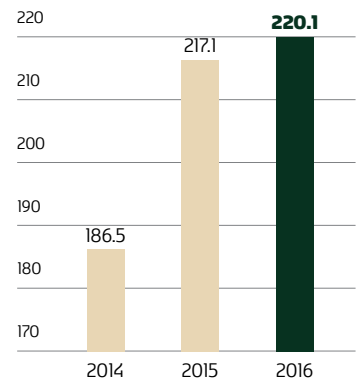
Profit After Tax (RM Million)



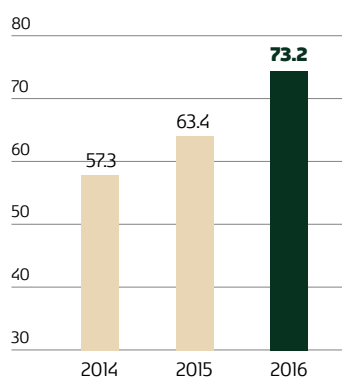
Profit Before Tax (RM Million)



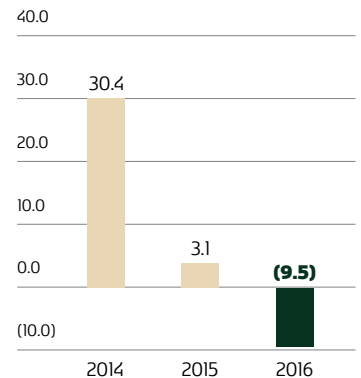
Dividends (RM Million)

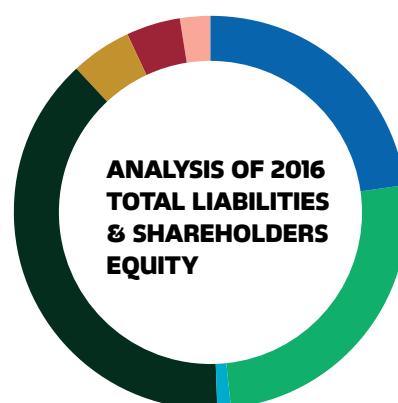
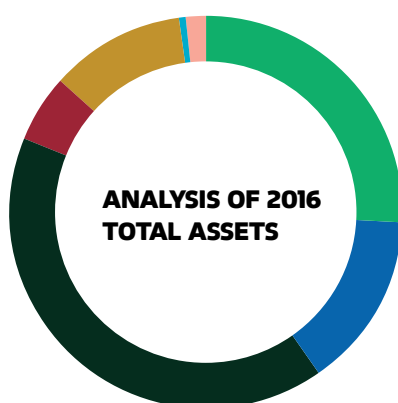
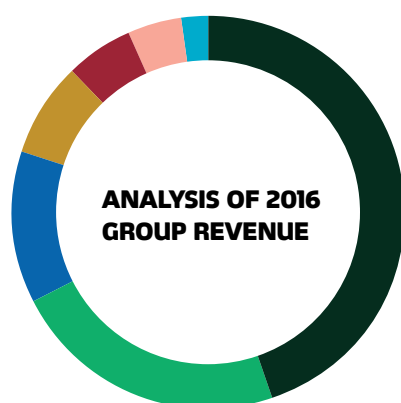


Taxation (RM Million)



Retained Earnings (RM Million)





Excise & Customs Duties	
2015	41.1%
2016	44.9%

Sales, Distribution, Administration & Other Costs	
2015	26.5%
2016	22.7%

Profit After Tax	
2015	13.3%
2016	12.5%

Raw & Packaging Materials Costs	
2015	7.8%
2016	7.7%

Staff Costs	
2015	5.5%
2016	5.8%

Taxation	
2015	3.8%
2016	4.4%

Depreciation	
2015	2.0%
2016	2.0%

Receivables, Deposits and Prepayments	
2015	43.1%
2016	40.8%

Property, Plant and Equipment	
2015	24.5%
2016	26.0%

Inventories	
2015	11.8%
2016	14.6%

Investments	
2015	12.1%
2016	11.0%

Cash and Cash Equivalents	
2015	6.2%
2016	5.5%

Other Assets	
2015	1.5%
2016	1.4%

Intangible Assets	
2015	0.8%
2016	0.7%

Payables and Accruals	
2015	37.9%
2016	38.4%

Reserves	
2015	27.4%
2016	25.3%

Share Capital	
2015	23.3%
2016	23.3%

Loans and Borrowings	
2015	4.8%
2016	5.0%

Current Tax Liabilities	
2015	3.5%
2016	4.4%

Deferred Tax Liabilities	
2015	2.0%
2016	2.3%

Minority interest	
2015	1.1%
2016	1.3%

STATEMENTS OF COMPREHENSIVE INCOME (RM - MILLION)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenue	897.5	960.2	1,045.5	1,368.2	1,489.4	1,584.8	1,555.1	1,635.1	1,659.9	1,679.5
Profit Before Tax	97.7	101.3	102.6	176.5	220.4	245.7	236.4	274.3	283.6	283.8
Taxation	19.2	25.2	25.9	42.4	53.0	51.9	49.8	57.3	63.4	73.2
Profit After Tax	78.5	76.1	76.7	134.1	167.4	193.8	186.6	216.9	220.2	210.6
Dividends	82.6	79.2	28.7	58.5	127.3	171.6	192.6	186.5	217.1	220.1
Retained Earnings	(4.1)	(3.1)	48.0	75.6	40.1	22.2	(6.0)	30.4	3.1	(9.5)

STATEMENTS OF FINANCIAL POSITION (RM - MILLION)

	2007	2008	2009	[- RESTATED -]		2012	2013	2014	2015	2016
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Issued and Paid-up										
Share Capital	142.0	142.0	142.0	142.0	142.0	142.0	142.0	142.0	142.0	142.0
Retained Earnings	319.1	316.0	363.5	91.5	130.4	148.7	140.0	165.1	163.9	148.8
Call and Put Option Reserve	-	-	-	-	-	-	(20.1)	(10.6)	-	-
Non-Distributable Reserves	10.1	10.1	9.3	11.8	13.0	8.3	11.8	15.7	29.7	30.9
Shareholders' Fund	471.2	468.1	514.8	245.3	285.4	299.0	273.7	312.2	335.6	321.7
Deferred Taxation	19.6	17.2	72.3	16.5	18.3	19.8	17.1	13.5	10.2	12.1
Net Non-Current Liabilities	-	-	-	-	-	-	-	-	-	1.7
Minority Interest	-	1.2	1.8	2.7	3.9	7.8	10.5	19.0	7.0	8.4
	490.8	486.5	588.9	264.5	307.6	326.6	301.3	344.7	352.8	343.9
Property, Plant, Equipment and Intangible Assets (Net Book Value)	158.1	156.4	521.5	152.3	158.6	168.2	174.3	164.4	167.5	176.6
Investment in Associated Company	13.8	13.9	24.3	26.3	33.4	34.7	40.9	58.2	80.2	73.1
Net Current Assets	318.9	316.2	43.1	85.9	115.6	123.7	86.1	122.1	105.1	94.2
	490.8	486.5	588.9	264.5	307.6	326.6	301.3	344.7	352.8	343.9

FINANCIAL RATIO

	2007	2008	2009	— RESTATED —		2012	2013	2014	2015	2016
				2010	2011					
Pre-Tax Earnings per shares (RM) *	0.32	0.33	0.34	0.58	0.72	0.80	0.77	0.90	0.93	0.93
Post-Tax Earnings per shares (RM) *	0.26	0.25	0.25	0.44	0.55	0.63	0.61	0.71	0.72	0.69
Net Dividend per ordinary share (RM)	0.27	0.26	0.09	0.19	0.42	0.56	0.63	0.61	0.71	0.72
Net Assets Backing per share (RM) *	1.54	1.53	1.68	0.80	0.93	0.98	0.90	1.02	1.10	1.05
Dividend Cover, No. of Times (Based on post-tax earnings)	0.95	0.96	2.67	2.29	1.32	1.13	0.97	1.16	1.01	0.96
Return on Shareholders' Fund (%)	16.7	16.3	14.9	54.7	58.7	64.8	68.2	69.5	65.6	65.5
Current Ratio	4.1	3.2	1.1	1.3	1.5	1.5	1.3	1.4	1.3	1.3
Bursa Securities Price at 31 December (RM)	4.24	3.60	4.54	6.32	8.54	12.52	12.18	11.74	11.70	13.92
Net Dividend Yield (%) ^	6.4	7.2	2.1	3.0	4.9	4.5	5.2	5.2	6.1	5.2

* Computed based on total number of shares net of Treasury shares.

^ Net dividend yield was computed based on dividend paid out during the year divided by the share price at year end.

FIVE YEAR DIVIDEND PAYMENT AS % OF PROFIT AFTER TAX

	2012	2013	2014	2015	2016
	RM'000	RM'000	RM'000	RM'000	RM'000
Group Profit After Tax	193,753	186,620	216,921	220,238	210,665
Net Dividend Amount Declared and Proposed for the year	192,621	186,506	217,081	220,139	220,139
Net Dividend Payment as % of Profit After Tax	99.4%	99.9%	100.1%	100.0%	104.5%

SETTING SAIL

The Carlsberg Group's new corporate strategy, SAIL'22, was communicated in March 2016 with the ambition to make the Carlsberg Group of companies a successful, professional and attractive brewer in the markets where, we operate.

We measure success 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.

Taking over the helm of the Group in July 2016, I have prioritised the implementation of the Carlsberg Group's new strategy, SAIL'22 in our Malaysia and Singapore operations. Together with my senior leadership team, we have co-created the local strategic priorities for 2017 and beyond. It consists of three levers: Strengthen The Core, Position For Growth, and Deliver Value for Shareholders. These three levers are further cascaded down into seven strategic priorities as follow:

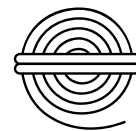
1. 'Grow in mainstream' with Carlsberg and Carlsberg Smooth Draught
2. 'Win in store' with better in-store execution
3. 'Fund the journey' by delivering efficiencies in the areas of Supply Chain, Operating Expenses and Value Management

4. 'Go big in premium' with Kronenbourg 1664 Blanc, Somersby cider, Asahi Super Dry and Connor's Stout Porter
5. 'Build new revenue streams' with innovations
6. Achieve 'Organic growth in operating profit'
7. Deliver 'High and stable dividend yield' for shareholders

Underpinning the three levers and seven strategic priorities are the two enablers: Create a Winning Culture and Defend our License to Operate.

The development of the local strategic priorities of SAIL'22 was completed in November 2016 and cascaded to all employees through two company-wide conferences held on 6 January 2017 in Malaysia and 8 February 2017 in Singapore. The priorities were also communicated to our Malaysian distributors at an annual conference that took place on 23 February 2017.

To us, the year end of 2016 was about getting the hearts and minds of our people behind our strategy, whilst 2017 will be the first year of execution of the strategy.



STRENGTHEN THE CORE



Grow in mainstream

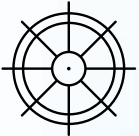


Win in store



Fund the journey





POSITION FOR GROWTH



DELIVER VALUE FOR SHAREHOLDERS



Go big in premium



Organic growth in operating profit



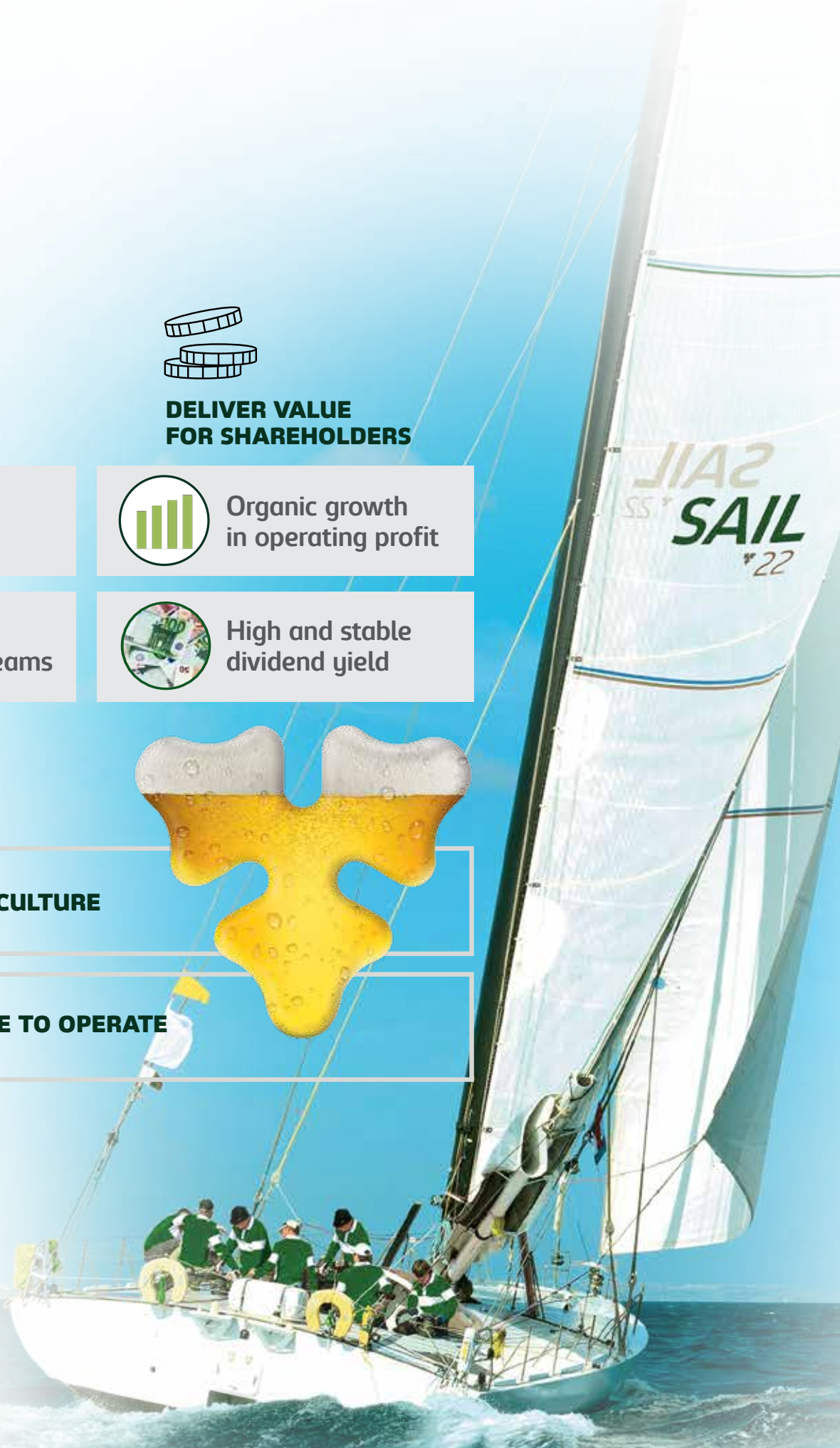
Build new revenue streams



High and stable dividend yield

CREATE A WINNING CULTURE

DEFEND OUR LICENSE TO OPERATE



OUR BUSINESS OPERATIONS AND B CARLSBERG MALA

Our Malaysia operations encompass our brewery in Shah Alam, Selangor and 17 sales offices throughout Peninsular and East Malaysia. Our sole production plant, the Shah Alam facility, manufactures beers, stouts, cider, shandy and non-alcoholic malt-based beverages. We cater mainly for the domestic Malaysian market, while some of our products are exported to other Asian markets like Singapore, Thailand, Taiwan, Hong Kong, Cambodia and Laos.

Our flagship brand, Carlsberg, is complemented by two brand extensions, namely Carlsberg Smooth Draught and Carlsberg Special Brew. Our premium portfolio of brands comprises Kronenbourg 1664 Blanc, Somersby cider, Asahi Super Dry and Connor's Stout Porter. Our mainstream and value-for-money brands are Royal Stout, SKOL, Jolly Shandy and Nutrimalt. Corona Extra is an imported third-party beer brand.

In 2016, revenue of the Malaysia operations reported a slight decline of 1.3% to RM1,169.8 million in comparison to the preceding year. However, our profit from operations increased by 18.3% due to a one-off loss recognised on disposal of a subsidiary in 2015, effective cost management and lower

foreign exchange losses. Profit before taxation increased by 5.5% to RM260.9 million as higher profit from operations was constrained by a loss in our associate company LBCP in Sri Lanka.

We are pleased with the benefits generated from the supply chain efficiency, operating expenses efficiency and value management initiatives under the Fund the Journey programme. Some of savings were reinvested in brand-building activities whilst the others were used to improve our earnings and cash flow.

1.3%
drop in revenue

18.3%
increase in operating profits

RM141 million
free cash flow

Probably the Best Football Experience

Proud to be the official beer of UEFA EURO 2016™, Carlsberg once again raised the bar by extending “Probably the Best Football Experience” campaign to publicise Carlsberg’s strong brand association with the international championship.

During the two-month, May to June 2016 consumer promotion, a limited-edition UEFA EURO 2016™ design was introduced on Carlsberg 640ml bottles and 320ml cans.

We hosted ten winners of the Carlsberg ‘Play on Pitch’ contest, along with a partner, to a VIP trip to watch the semi-finals between Portugal and Wales in Lyon, France. The lucky Carlsberg consumers had the chance to meet football star Cristiano Ronaldo and play on the pitch at the Stade de Lyon with Danish legendary goalkeeper, Peter Schmeichel and football legend, Steve McManaman.

RANDS YSIA

Malaysia

Probably the Smoothest Beer in the World

In April 2016, we proudly launched the innovative Carlsberg Smooth Draught nationwide by introducing a 580ml bottle and followed through on this with a 320ml can in July. Inspired by strong consumer insights, Carlsberg Smooth Draught was invented for consumers, who prefer the smooth sensation of a freshly tapped beer in a bottle or a can.

The brew, available in 580ml bottle, was initially rolled-out to coffee shops, food courts, hawker centres, Chinese restaurants and neighbourhood eateries. It was supported by a creative advertising campaign, aggressive distribution built-up as well as the deployment of a task force of promoters to drive trial and sampling.

On top of this, we organised a two-day 'go-to-market' event, where non-sales employees visited the trade to help promote the new brew and engage with consumers. Four months into the successful launch of Carlsberg Smooth Draught, we built on the positive momentum achieved by introducing the 320ml can to all major hyper and supermarkets as well as convenience stores.





The country's leading cider brand

Our winning brand, Somersby cider continues to grow from strength to strength through very high level of consumer repurchase supported by extensive sampling activities and increased distribution. Local production of Somersby Apple cider in the first quarter of 2016 and the launch of the 320ml can packaging in the third quarter contributed positively to brand profitability and product affordability.

To add further excitement to the drinking experience, we introduced Somerita, a fun and quirky drinking ritual, where the Somersby bottle is served upside down over crushed ice in a unique glassware – similar to a cocktail. We also introduced a new Somersby variant by importing Somersby Blackberry cider.

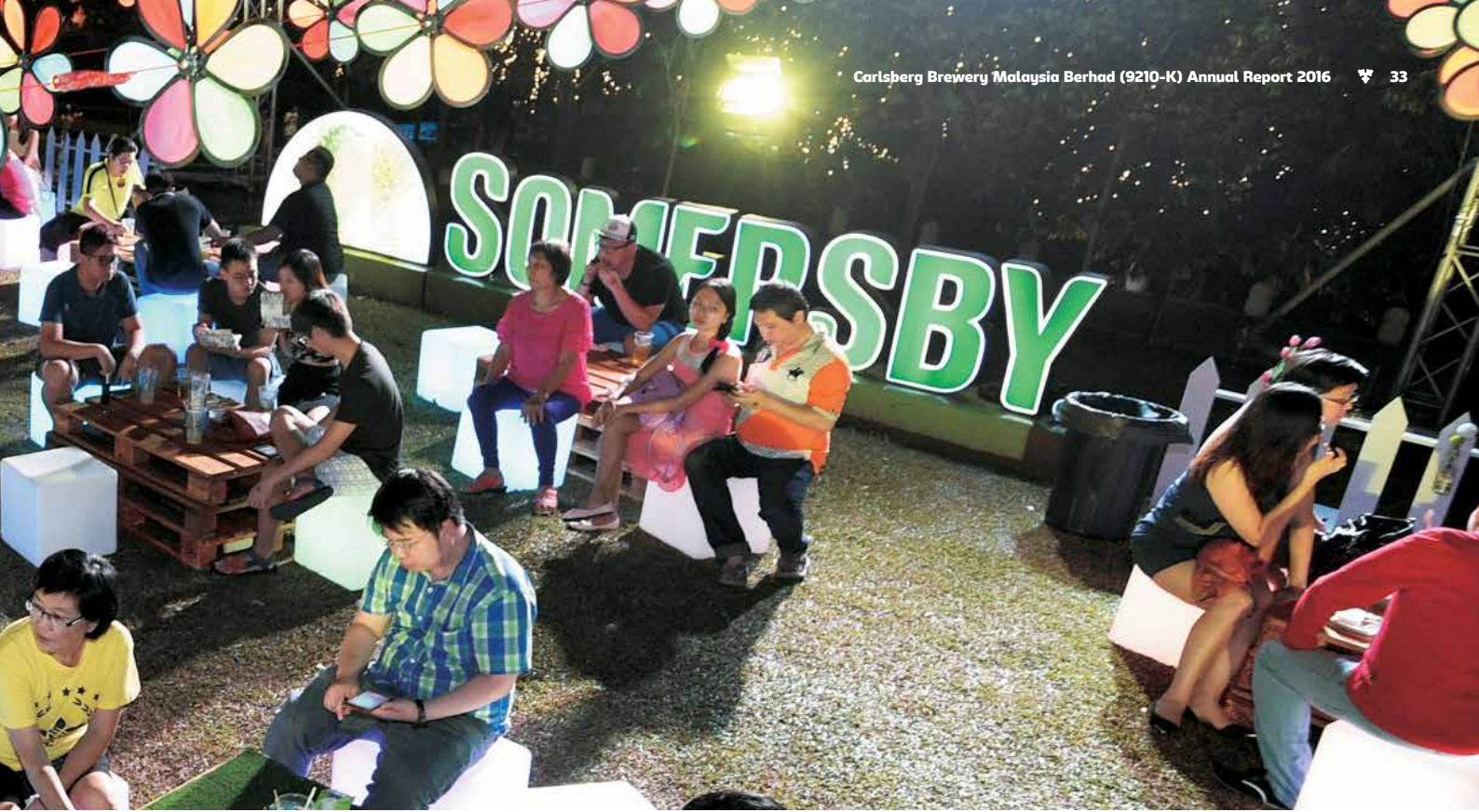
In conjunction with the Apple Day celebration on 26 October 2016, a massive sampling campaign was held, where 350,000 bottles of Somersby Apple cider were made available at RM5 each at participating bars and restaurants over a three-week period. A special price discount promotion at convenience stores and hypermarkets such as AEON, AEON BiG, AEON MaxValue, Cold Storage, Giant, Jason's Food Hall, Mercato and Tesco, successfully boosted consumption.

In 2016, both Somersby Apple and Blackberry cider showed excellent results with a growth of 37%, thereby strengthening our leading position in the cider segment.

Accelerating the growth of premium brands

Our premium brands – Somersby cider, Kronenbourg 1664 Blanc, the premium French wheat beer; Asahi Super Dry, Japan's No. 1 premium beer; and the premium draught stout, Connor's Stout Porter, registered a growth of 29% in 2016.

We accelerated the good momentum of Kronenbourg 1664 Blanc by launching a 320ml can to increase affordability and availability. We sustained the steady growth of Asahi Super Dry through tactical consumer promotions at entertainment outlets and modern bars. The consumer promotion and activation campaign we implemented for Connor's Stout Porter, relaunched in March 2015, recorded 65% growth in 2016 mainly driven by better consumer drinking experience and appreciation for a quality brewed draught stout.



SAILTM Go big in premium

OUR BUSINESS OPERATIONS AND CARLSBERG SING

Our Singapore operations is a trading business that sells a wide range of beer, stout, cider and shandy. It is a one-stop alcohol beverage provider located at the Hiap Hoe Building at Zhongshan Park, Singapore. It holds a 51% stake in MayBev Pte. Ltd. (MayBev), which is also a distributor in Singapore, for Asahi brands and other international brands such as Nikka whisky and Gekkeikan sake.

Our flagship brand in Singapore is Carlsberg, the country's No. 1 imported beer and the second best-selling beer brand in Singapore. Other renowned brands in our portfolio are Carlsberg Smooth Draught, Carlsberg Special Brew, Kronenbourg 1664 Lager, Kronenbourg 1664 Blanc, Somersby cider, Asahi Super Dry, Connor's Stout Porter, Royal Stout, SKOL and Jolly Shandy.

In 2016, revenue for the Singapore operations increased by 6.9% to RM583.1 million, but profit from operations declined by 8.5% to RM98.4 million in 2016 compared with the preceding year. This was due to a one-off gain in 2015 from a brand incentive and refund of Goods and Service Tax received in 2015.

Our premiumisation strategy paid off where we recorded a higher volume of 10.1% for four premium brands Kronenbourg 1664, Somersby cider, Asahi Super Dry and Connor's Stout Porter. Our innovation Carlsberg Smooth Draught was launched in a 580ml bottle in July and instantly gained good traction in coffee shops, food courts, hawkers and Chinese eateries whilst the launch of Kronenbourg 1664 Blanc and Somersby Apple cider in 320ml can generated incremental sales among supermarkets and hypermarkets.

6.9%
increase in revenue

8.5%
decline in operating profits

RM83 million
free cash flow

Probably the Best Football Experience

Carlsberg, the official beer of UEFA EURO 2016™, offered 'Probably the Best Football Experience' in Singapore. Joining forces with Carlsberg Malaysia, we rewarded ten Carlsberg 'Play on Pitch' contest winners and partners with a novel money-can't-buy experience in France.

Singapore consumers were given VIP access to the exclusive UEFA Club Lounge where they had probably the best experience at the Stade de Lyon watching Cristiano Ronaldo and Luis Nani of team Portugal claiming victory over team Wales with a 2-0 win. They also experienced probably the best meet and greet event with international football legends like David James, Claude Makelele and Marcel Desailly, just to name a few.

Singapore consumer, Darren Lee, represented the winning team Singapore who won the 'Play on Pitch' game, was presented the "Carlsberg Man of the Match" award by Carlsberg Ambassador Peter Schmeichel.

Probably the Best Job in the World

The second edition of the recruitment campaign for the Carlsberg Brand Ambassador and Beer Taster were held in November and December respectively.

Back by popular demand, this *Probably the Best Job in the World* brand-building campaign aligned with the Carlsberg brand proposition that illustrates if Carlsberg undertook a project, it would be extraordinary and carried out in a witty manner.

In our quest for a better drinking experience and increased consumer engagement, we awarded the job to Royston Lim, who impressed the judges with his knowledge of the ingredients in a Carlsberg beer and the Carlsberg heritage. During the panel interview, Royston demonstrated that he had perfected the art of pouring Carlsberg when put to the test. He earned a pay-check of SGD 20,000 for just four hours on the job and experienced probably the best job interacting with Carlsberg consumers.

Probably the Smoothest Beer in the World

Seeing the potential in Carlsberg Smooth Draught, we launched the brew in a 580ml bottle in July. Sampling programmes to create awareness, promoted trials and simple blind beer taste tests with drinkers in coffee shops, food courts and hawker centres were conducted.

We also partnered with mainstream media, *Lianhe WanBao* for a five-week giveaway of Carlsberg Smooth Draught in the different regions of Singapore. Response from the trade and consumers was very positive.

BRANDS APORE



The country's leading cider brand

In conjunction with the launch of the Somerita drinking ritual, we activated Somersby Kombi, a mobile pop-up store, to promote the cider and induce trials among non-beer drinkers at parties, gatherings, picnics, barbeques and other outdoor occasions in Singapore. The kombi successfully roved around 41 places and engaged over 70,000 consumers. Response to the activation was very encouraging with the Somersby Singapore Facebook page recording a 7% increase in followers.

In the fourth quarter of 2016, we launched Somersby Blueberry cider in a 330ml bottle as a seasonal variant across all major supermarket chains nationwide. The cider, with 4.5% ABV content, offers a mild yet tangy taste of blueberries

that is very refreshing. Targeting cider drinkers, the majority of whom are the younger and digitally savvy consumers, Somersby cider activated various engagement activities on its Facebook page and Instagram to further strengthen the brand affiliation of Somersby Apple cider, Somersby Pear Cider and Somersby Blueberry cider in Singapore.

Driving premium brands to Scale

Our premium brand Kronenbourg 1664 recorded steady 11% growth in 2016, mainly driven by greater affordability and accessibility due to smaller can packaging. In October, we introduced Kronenbourg 1664 lager in a 330ml can, which delivered some 6% in incremental volume. In addition, we also launched Asahi Black, a dark lager with 5.5% ABV content in can format.

Effective 1 January 2017, we delisted Beck's and Corona Extra, as this aligns with our SAIL'22 strategic priorities #2 – Go big in premium via our own brands Somersby cider and Kronenbourg 1664.





Sri Lanka



Lion Brewery (Ceylon) PLC (LBCP)

In May last year, our associate company, LBCP in Sri Lanka experienced the worst floods in 30 years with an estimated 30,000 people having to be evacuated and relocated. In just under 48 hours, the flood worsened and the production plant in Biyagama was submerged under six feet of water. All roads leading to the plant was only accessible by boat and production was brought to a halt.

When water level receded after two weeks, the majority of the plant equipment was severely damaged and affected stocks had to be written-off. LBCP only resumed operations on 23 November 2016.

During the interim period, Carlsberg Malaysia Group, together with our Carlsberg Asia markets in Laos,

Myanmar and Cambodia, extended our assistance to address out-of-stock issues and supplied LBCP.

While the brewery received insurance compensation for the write-down on fixed assets, the impact of the floods on the business was exorbitant due to loss of market share and higher operating costs due to the importation of beer from other Carlsberg markets. The financial impact on Carlsberg Malaysia Group, which owns a 25% stake of LBCP, was a loss of RM5.1 million in 2016 versus a profit of RM16.1 million in 2015.

We expect LBCP to return to profitability by the second half of 2017 as it gradually recovers from the impact of the flood.

BUSINESS RISKS

In line with Bursa Malaysia's new disclosure requirements, we highlight below the key anticipated or known risks that the Group is exposed to that may have a material effect on our operations, performance, financial condition, and liquidity. Our plans and strategies to mitigate these risks have also been disclosed below.

On 23 September 2014, our Board of Directors announced to Bursa Malaysia that our Malaysian operation had received two bills of demand both dated 17 September 2014 from the Selangor State Director of the Royal Malaysian Customs ("State Customs") for the following:

- (i) Excise duty amounting to RM35,698,219.81 for the period 1 July 2011 to 14 January 2014;
- (ii) Sales tax amounting to RM13,763,381.02 and a penalty amounting to RM6,881,690.56 for the period 1 July 2011 to 14 January 2014.

We do not admit liability on the demands made by the State Customs and have taken legal advice on the matter with ongoing discussions with the State Customs. No provision has been recognised and there have been no material changes in contingent liabilities or contingent assets for the year ended 31 December 2016. The financial impact of the matter is being reassessed on a quarterly basis.

In addition, we received a letter from the Royal Malaysian Customs on 16 March 2016 notifying us of the proposed implementation of security ink marking on all locally brewed products. Working under the Confederation of Malaysian Brewers Berhad, we actively engaged

in dialogues with the Ministry of Finance and the implementation was postponed, which was originally scheduled to take effect on 1 June 2016. We strongly urge the Malaysian Government not to proceed with this measure as we do not believe it will be effective against contraband activities.

OUTLOOK AND PROSPECTS

As we enter 2017, both our Malaysia and Singapore operations expect softer markets with prolonged weak consumer sentiment. The continued depreciation of the Malaysian Ringgit, higher petrol prices and the escalating cost of living have dampened consumer spending in Malaysia. The Singapore economy remains gloomy as well with continued soft market sentiment, weak marine and shipbuilding forecasts plus lower foreign investments.

Despite the macroeconomic challenges and intense market competition, I remain positive that our strategy SAIL'22 will help steer our businesses in a manner, where we will be able to succeed and deliver on our targets for 2017. We are committed to continue investing, innovating and growing our brands and people as these are our strongest competitive advantages.

Going forward, Carlsberg Malaysia Group will continue to explore new brands and new drinking experiences to deliver sustainable business growth.

ACKNOWLEDGEMENTS

It gives me great pleasure to be part of and lead the Carlsberg Malaysia Group as we embark on the new strategy SAIL'22. I believe we have our priorities right, a strong portfolio of brands and people with a winning mindset - to realise our ambition of becoming a

more successful, more professional and more attractive brewer in our markets.

To the Board of Directors, management team and colleagues, I thank you for your solid advice, astute insights and steadfast commitment towards the Carlsberg Malaysia Group. I believe great potential lies ahead for our people, brands and business despite the challenging consumer sentiment and difficult macroeconomic conditions that 2017 brings. We remain committed to giving our best to deliver top quality products and innovate the beer and cider categories, to act aggressively and prudently, when executing our Fund the Journey programme and to improve the way we run our businesses.

To our customers, consumers and associates, allow me to convey my heartfelt appreciation for your support, hospitality and constructive input since my arrival.

I certainly look forward to leading this fine team that will help take the Carlsberg Malaysia Group to new heights.

Thank you.

Lars Lehmann
Managing Director

Shah Alam
20 March 2017