CEO BUSINESS REVIEW

NON-ALCOHOLIC BEVERAGES

SUMMARY OF MESSAGE

- F&B revenue improved 3% to $1,645 million
- F&B PBIT surged 15% to $231 million
- Beverages generated turnover of $488 million in FY2018, accounting for 30% of F&B's turnover. Losses narrowed to $0.2 million
- Dairies generated turnover of $1,157 million in FY2018, accounting for 70% of F&B's turnover. Earnings improved 13% to $231 million, accounting for nearly all F&B PBIT
- PBIT margin improved 156bps to 14%
- Dairies remained Group's largest revenue and profit contributor
  - Vinamilk full-year contribution amounted to $95 million
  - Dairies Thailand profit improved 19%
- Soft Drinks profitability improved
  - Beverages Malaysia profit improved over twofold
- In addition to portfolio development through acquisitions and innovations, the Group also drives growth through driving efficiencies in our production processes and route-to-market

Mr Lee Meng Tat
Chief Executive Officer,
Non-Alcoholic Beverages

Revenue

$1,645 MILLION

For FY2018

$1,605 MILLION in FY2017

Profit Before Interest & Taxation

$231 MILLION

For FY2018

$200 MILLION in FY2017

PERFORMANCE REVIEW

FY2017/2018 was a challenging year. F&N operated in a difficult environment where it has to contend with regulatory challenges as well as shifting consumer behaviour and industry trends. While economic indicators in our core markets were generally positive, consumer sentiment has remained relatively subdued and consumption has been weak.

Despite all the megatrends impacting our businesses, F&N Food & Beverage ("**F&B**") division delivered an impressive performance. This year, F&B revenue improved 3%, from $1,605m to $1,645m. The strong top line growth was broad-based, with higher dairy and soft drinks sales in Malaysia, Thailand and Indonesia. Underpinned by higher sales, reduced operating costs and full-year profit contribution from the Group's 20.01% stake in Vietnam Dairy Products Joint Stock Company ("**Vinamilk**"), F&B FY2018 profit before interest and taxation ("**PBIT**") rose 15% to $231m, from $200m a year ago.

F&N's success was due to stellar execution of the strategy established by the Group in 2016. Our strategy focuses on geographic and business expansion as well as on our brands. Our balanced and differentiated portfolio in core markets of Malaysia, Singapore and Thailand has allowed F&N to meet the diverse needs of our customers and strengthened our positions in categories which are strategic for the future. While we consolidate our positions in core markets, we continue to pursue our strategy of pushing our core brands into new markets of Indonesia, Myanmar, Thailand (soft drink) and Vietnam. This diversified growth strategy provides new avenues of growth, as well as protects the company from country-specific economic downturns. We will build on our progress to date and will continue to make disciplined investments in these new markets to grow our presence.

A YEAR OF PROGRESS

This year, both Beverages and Dairies turned in better performances. F&B FY2018 revenue grew 3% to $1,645m, from $1,605m a year ago. The revenue growth was supported by 5% growth in Dairies, mainly due to better export canned milk sales from Malaysia and Thailand, higher ice cream volume and favourable translation effects. On the back of higher sales, full-year profit contribution from Vinamilk and lower operating costs, F&B FY2018 PBIT improved 15% to $231m, up from $200m in FY2017.

Despite challenging conditions, Dairies saw revenue grew 5% to $1,157m, up from $1,105m in FY2017. Dairies Thailand and Dairies Malaysia largely supported the growth, a testament to our continued ability to extract value from our mature markets. Dairies Thailand, which accounted for 36% of F&B revenue and over 50% of Dairies revenue, registered a 5% top line growth, and successfully reinforced its market-leading position in the canned milk segment. Consequently, earnings of Dairies Thailand improved 19% to $87m. Meanwhile, Dairies Malaysia, where sales grew 6% year-on-year ("**y-o-y**"), has benefitted from better export performance and positive currency translation effect. Despite higher sales, Dairies Malaysia PBIT fell 10% to $41m on higher dairy-based commodity prices and packaging costs. Dairies Malaysia accounted for 19% of F&B revenue and 28% of Dairies revenue. This year, Dairies earnings was further bolstered by Vinamilk's $95m earnings contribution, which has benefitted from an additional 6.5-month contribution as profit recognition under equity method started from 16 April 2017.

The soft drinks industry in Malaysia, Singapore and Myanmar continue to be impacted by regulatory changes, dampened market sentiments, competitive pricing and sales disruption. As Singapore and Malaysia soft drinks market contracted, F&N Beverages division top line fell 2% from last year, to $488m. Despite the challenges, we continued to adapt our brands to keep pace with the shifting consumers preferences. This year, we have rolled out numerous innovations across our markets: we have expanded the product range of *100PLUS*, our flagship brand, and further reduced its calorie count by launching reduced and zero-calorie versions. On the back of lower

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sugar and operating costs, Beverages Malaysia FY2018 earnings improved over twofold to $13m, from $6m in FY2017. Beverages Singapore earnings was down, impacted largely by lower export sales, higher packaging cost and lower selling prices as a result of intense competition and regulatory challenges. Performances of new markets have been mixed. We saw a return of intense market competition and competitive levels of trading terms, which diminished our profits further on a y-o-y comparison. We have responded to the pressure on profits across our new markets by reining in expenses without compromising our growth initiatives. While Myanmar and Thailand (soft drink) earnings have improved – losses in both markets were narrowed by controlling marketing expenses – Indonesia's performance was impacted by currency headwinds and poor consumer sentiments. Taken together, Beverages FY2018 losses narrowed to $0.2m, from a loss of $4m in FY2017.

Brand health remained strong. *100PLUS* cemented its leadership position in Malaysia – in the isotonic and the soft drinks segment; *F&N NUTRISOY* and *F&N SEASONS* are Malaysians favourite soya drink; *F&N SEASONS* and *OYOSHI* (rebranded from OISHI) are the No.1 Ready-To-Drink ("**RTD**") Tea brands; and our canned milk brands – *F&N*, *TEAPOT* and *CARNATION* – continued to dominate Malaysia and Thailand. All these brands contributed strongly to our top line. This strong performance was driven by continuous innovation, investment in brand equity and expansion into new markets.

PAVING THE WAY FOR GROWTH

Acquisitions are part of our relentless focus on actively managing our brand portfolio

Alongside our breakthroughs through research and development, acquisitions also play a key role in our quest for innovation. The brands we acquire will take us into new growth segments as well as innovative business models that we can continue to operate separately. Our acquisitions of Warburg and Yoke Food Industries ("**YFI**"), for instance, are examples where such acquisitions have helped the Group strengthen our positions in Singapore and Indonesia. Hence F&N is always on the lookout for such gateway acquisition opportunities.

This year, for example, we invested in Tsit Wing International Holdings Limited ("**TW**") as a cornerstone investor during its Hong Kong initial public offering in May 2018 and started discussions on collaboration opportunities. The opportunity for such a strategic investment allowed us to extend our geographic footprint and business.

The Group successfully subscribed for a 4.21% stake at TW initial public offering at HK$1.98 per share, bringing the total acquisition cost to HK$63m ($11m). In April, F&N entered into a memorandum of understanding with TW to explore business and product development opportunities for the supply, distribution, cobranded promotion and co-development of beverage products and/or beverage solutions in Hong Kong, Macau, China and Southeast Asia. Established in 1932, TW is a leading integrated B2B coffee and black tea solutions provider in Hong Kong, Macau and the PRC. A well-trusted brand, TW provides one-stop coffee and tea solution services to commercial customers that cover the entire coffee and tea procurement, processing and distribution value chain.

We continuously review potential acquisition opportunities in mature and emerging markets and pursue these whenever there is a sound business case. Through a series of open market purchases, the Group has successfully increased its stake in Vinamilk from 18.74% to 20.01% in 2018. Profit contribution from Vinamilk has allowed the Group to strengthen our Dairies profitability. We expect to continue to pursue strategic acquisitions in the future to strengthen our product offerings in ASEAN.

Innovation

In anticipation of changes in consumer demand and government regulations, we have further evolved our innovation and reformulation program this year to keep our portfolio relevant and market-leading. We remain relentlessly focused on sugar reduction and have taken significant steps to expand our selection of low- and zero-calorie beverages, reshaping our portfolio to capitalise on consumers' increasing interest in health and wellness. To date, over 90% of our soft drinks range in Singapore and Malaysia are below the 12% sugar level/low- and zero-calorie.

Take the Group's flagship brand, *100PLUS*. This year, to provide healthier alternatives to our consumers, the Group, through careful reformulation, further reduced the sugar content of *100PLUS* range, launched reduced- and zero-sugar variants as well as introduced a new variant across our existing and new markets. In Malaysia, the new and improved *100PLUS* range, which tastes just like its original range but with only 4% of sugar, has also earned the Healthier Choice Symbol ("**HCS**") from the Malaysia Ministry of Health. This year, we have also responded to consumers' needs by expanding *100PLUS* offerings – the launch of *100PLUS* Reduced Sugar, *100PLUS* Blackcurrant and *100PLUS* ACTIVE Powder, packed in slim convenient sachets. *100PLUS* ACTIVE Powder gives its loyalists the same beverage they love in one convenient sachet, anytime, anywhere.

All-time favourites *F&N* Orange and *F&N* Sarsi also get a sugar-free, zero-calorie version this year, much to the delight of their fans. *F&N SEASONS* recently unveiled a new look for their range of the all-time favourite drinks inspired by evolving consumer needs and demands for a healthier lifestyle. *OISHI*, Malaysia's favourite RTD green tea beverage has embarked on a rebranding exercise with a new name *OYOSHI* and innovative packaging design across its entire product range, enabling the well-loved drink to enhance its widespread appeal and stand out amongst other brands in the segment.

We have also strengthened our delicious lineup of *F&N MAGNOLIA*, a trusted household name in Singapore, by complementing its popular pasteurised variant with a UHT version. The new *F&N MAGNOLIA* Plus Lo-Fat Hi-Cal UHT Milk with Oats, just like its pasteurised version, is lower in saturated fats and contains higher calcium than regular milk, and carries the HCS by the Singapore Health Promotion Board ("**HPB**").

To get consumers excited about festivities and drive sales, the Group continued to release limited-time festive packaging and launch new seasonal flavours. This Chinese New Year, *100PLUS* introduced limited-edition Chinese New Year 2018 packaging; *F&N* Sparkling Drinks and *F&N SEASONS* launched two limited-edition festive packs for families to share; and only in Malaysia, F&N brought back the Classic *F&N* Orange Crush, made with real juice, and *F&N* Sarsi for Chinese New Year. This Hari Raya, the Group also unveiled a new festive taste to its limited-edition sparkling drinks lineup.

Building new capabilities

Together with portfolio development, we have continued to search for efficiencies in our processes, focusing on production and route-to-market.
A clear example of this is the installation of the RM90.5m aseptic cold-fill line for polyethylene terephthalate ("**PET**") bottles in our Malaysia soft drinks plant by Fraser & Neave Holdings Bhd ("**F&NHB**"), a subsidiary of F&N. This new aseptic cold-fill line uses thinner and lightweight containers and reduces the use of PET resin packaging material by 40%. Located at the F&NHB's Shah Alam soft drinks facility, the state-of-the-art technology line has a maximum capacity of 720,000 bottles daily, enabling F&NHB to increase its bottle production by 10% or 6.5m cases annually. The aseptic cold-fill line began producing *100PLUS* ACTIVE 1L, *F&N SEASONS* tea range and *OYOSHI* since March 2018.

F&NHB is also exploring projects that improve efficiency and productivity at its dairy plant in Pulau Indah, Malaysia. F&NHB aims to double its capacity by removing production bottlenecks. The increased capacity will not only help to meet domestic demand, but also aid F&NHB in growing its export business. It aims to bring in RM800m in total export revenue by 2020.

Since 2015, to deliver long-term growth and profitability, the Group embarked on several business transformation programmes to accelerate the Group's transition into a leaner, more efficient and effective organisation to drive speed and agility. From streamlining and simplifying our operating model, we achieved more than just cost savings. We have enhanced our local market focus by simultaneously reducing the time-to-market and improving our service quality, which allowed us to adapt closer to the rapidly changing beverage landscape and cater to the needs of our consumers and retail customers.

BUILDING A SUSTAINABLE FUTURE

Our performance-driven approach and strategic focus over the last few years have enabled the Group, in large part, to emerge stronger, more efficient and more competitive. We have a solid platform with a clear and definite direction and strengths – building our brands and bringing healthy and innovative products to our loyal consumers in the marketplace. It also means leveraging our longstanding presence and strong network in the region to expand our F&B business, improving margins and operational efficiency, as well as solidifying our collaboration with our strategic partner, Thai Beverage Group, to accelerate the execution of our growth strategy.

We believe that our balanced approach to growth will guide us to face the challenges ahead. We know that change is constant and is further accelerated by the adoption of digital technology. We must proactively influence its course. We must play to F&N's strengths and stay with the business strategy that is working. Above all, we must continue to serve our consumers. Only by enhancing the quality of our consumers' lives in meaningful ways, every day, can we, together with our staff and thousands more who work with us throughout the value chain, deliver the growth shareholders expect every year.