CEO Business Review

Food & Beverage

Continued commitment to our Vision 2020 growth strategy has resulted in another year of solid performance. This year, Food & Beverage ("**F&B**") growth was balanced across our divisions. Despite numerous headwinds, including the introduction of sugar tax in Malaysia and the rising input and transportation costs, we delivered another strong financial performance and progressed toward our long-term strategic goals. Our FY2019 results demonstrated the resilience of our business, the strength of our broad portfolio, the quality of our team and the strong relationships we have with our customers and partners. As we head into the final year of our current strategy cycle, F&N will continue to play to our strengths and stay with the business strategy that is working so that we are positioned to continue on this growth path.

FY2019 sales for the F&B division totalled $1,624.6m, a solid increase of 4.5% over the last fiscal year. Beverages division recorded revenue of $470.7m, a 6.5% year-on-year ("**y-o-y**") increase while Dairies division sales were $1,153.8m, a 3.6% increase over FY2018. Favourable input costs on key raw and packaging materials, and strong profits in the Group's associate company in Vietnam, Vietnam Dairy Products Joint Stock Company ("**Vinamilk**") boosted F&B FY2019 profit before interest and tax ("**PBIT**") by 22.0% to $282.2m, from $231.3m in FY2018.

$1,625 MILLION

Revenue for FY2019

$1,555 million in FY2018

DAIRIES

Despite intense market competition, Dairies continued to build on the positive momentum of last year, as our brands and products gained further traction with customers and consumers. This year, Dairies revenue grew 3.6% to $1,153.8m, up from $1,113.3m in FY2018. Dairies posted double-digit profit growth in FY2019, outpacing sales. Dairies PBIT grew 19.3%, to $275.5m.

Dairies Thailand and Dairies Malaysia largely contributed to Dairies top line growth, a testament to our ability to extract value from our matured markets. Dairies Thailand, which accounted for 38.2% of F&B revenue and 53.8% of Dairies revenue, registered an outstanding 9.9% top line growth, and reinforced its market-leading position in the canned milk segment. Coupled with lower input costs (largely lower sugar costs), earnings of Dairies Thailand improved 36.6% to $118.4m. Dairies Malaysia, where sales grew marginally, has benefitted from better export performance. Despite improved sales, aggressive pricing environment in Malaysia continued to weigh on its profitability. As a result of higher trade promotion, Dairies Malaysia PBIT fell 5.6%, to $38.2m. Dairies Malaysia accounted for 18.9% of F&B revenue and 26.6% of Dairies revenue. This year, Dairies earnings was also bolstered by Vinamilk's $110.9m earnings contribution, an increase of 17.0% over last year. The recovery of domestic consumption has fuelled Vinamilk's improved performance in this fiscal year.

BEVERAGES

The soft drinks industry in Malaysia and Singapore continued to be impacted by regulatory changes, changing consumer preferences, dampened market sentiments, competitive pricing and sales disruption. The introduction of the excise tax on sugared beverages in our largest soft drinks market, Malaysia, and the increasing health concerns over excessive sugar intake in Singapore have resulted in contractions in Singapore and Malaysia carbonates markets. Despite these challenges, our strong market position and broad portfolio of low- and no-sugar products have helped to deliver another strong financial performance. Beverages segment top line improved 6.5% from last year,

$282 MILLION

Profit Before Interest & Taxation for FY2019

$231 million in FY2018

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

Mr Edmond Neo
Chief Executive Officer,
Beer

to $470.7m. The growth was driven by successful festive execution and introduction of new products that underscored our ability to keep pace with regulatory changes and adapt our brands to shifting consumers preferences. We continued to roll out numerous innovations across our markets in Singapore, Malaysia, Thailand and Myanmar: we reformulated and expanded our healthier range of *F&N* Sparkling Drinks and range of teas; for *100PLUS*, our flagship brand, we further reduced calorie count by reformulating its entire ready-to-drink ("**RTD**") range in Malaysia.

Supported by higher sales, favourable sugar costs and lower marketing spend, Beverages earnings improved to $6.7m, up from $0.4m in the prior year. The improved profitability was despite pre-operating costs of $3.7m incurred at the new plant in Myanmar. Excluding pre-operating costs, Beverages earnings would have been higher, at $10.5m.

Beverages Malaysia, our largest market for Beverages, saw earnings improved 5.7%, to $14.9m in FY2019. The higher earnings in Malaysia was due to higher sales, lower sugar cost and marketing spend. Similar to Malaysia, Beverages performances in Singapore and most of the New Markets improved, although competition remained intense and has continued to shape the pricing situation. We have responded to the pressure on profits by reining in expenses, without compromising our growth initiatives. We recorded volume and sales growth across these markets; profitability of these markets has also improved.

Last year, the Malaysian authority announced the imposition of excise duty of 40 sen per litre on sweetened beverages containing more than 5g/100ml of sugar, milk-based drinks containing more than 7g/100ml of sugar, as well as fruit and vegetable juices containing more than 12g/100ml of sugar. The excise duty came into effect on 1 July 2019. In a move to support the government initiatives for healthier living and minimise the impact of this excise tax, the Group had successfully reformulated most of its RTD products by reducing sugar content and introducing smaller pack sizes. As at the close of this fiscal year, about 90% of our RTD products sold in Malaysia are healthier options and are exempted from excise duty. These purposeful innovations have benefited our broad portfolio of brands, with core brands like

SUMMARY OF MESSAGE

F&B revenue improved 4% to $1,624.6 million. F&B PBIT surged 22% to $282.2 million

Beverages generated turnover of $470.7 million in FY2019, accounting for 29% of F&B's turnover. Beverages' profit improved to $6.7 million, up from $0.4 million in FY2018

Dairies generated turnover of $1,153.8 million in FY2019, accounting for 71% of F&B's turnover. Earnings improved 19% to $275.5 million, accounting for 98% of F&B PBIT

F&B PBIT margin improved 250bps to 17%

Dairies remained Group's largest revenue and profit contributor
- Vinamilk full-year contribution amounted to $110.9 million
- Dairies Thailand profit improved 37%

Beverages profitability improved
- About 90% of our RTD products sold in Malaysia are healthier options and are exempted from excise duty
- Beverages Malaysia profit improved 6%
- Emerald Brewery completed first canning run on 25 September; commercial operations started on 1 October

In addition to portfolio development through acquisitions and innovations, the Group also drives growth through innovation and renovation of our products, driving efficiencies in our production processes and route-to-market

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100PLUS, *F&N NUTRISOY*, *F&N ICE MOUNTAIN* and *F&N SEASONS* all recording revenue growth. We are confident that our approach to the excise duty responds to the evolving consumer trends and offers us further opportunities for growth.

CONTINUED TO STEP CHANGE OUR BUSINESS CAPABILITIES

We have also been developing new capabilities that will strengthen our platform for growth in the years ahead.

Over the past three years, we have put in capital investment in our soft drinks and dairies capabilities in Malaysia and Thailand to bolster scale, adopt cutting edge technology and facilitate integration. Our investments included a cold-aseptic filling polyethylene terephthalate ("**PET**") line, a 600-bottle per minute water line and combi blow, mould and filling machine in our Shah Alam soft drinks plant; a ultra-high temperature processing line in Kuching soft drinks plant; a sweetened condensed milk pouch and tube filling line and gable top filling machine in Thailand dairy plants; and another evaporated line in Pulau Indah dairy plant in Malaysia. This year, as part of our New Product Development Transformation programme, we invested in new production lines and upgraded the existing lines in the Shah Alam plant to facilitate our extension into new offerings and packaging formats, added a water line and warehouse in Sabah, etc. The investment is designed to step-change the speed and flexibility of our production lines whilst delivering environmental benefits through greater efficiencies. By 2021, upgrades to our Singapore and Thailand plants will be completed, and we will close the current plants as soon as the new plants are operationally ready; as well as our new soft drinks plant in East Malaysia. These capital investments will increase efficiency and strengthen our ability to respond to changing consumer trends with agility and pace by expanding our range of beverages and pack sizes.

In October 2019, we announced that our listed entity in Malaysia, Fraser & Neave Holdings Bhd ("**F&NHB**"), entered into a conditional agreement to acquire 4,454-hectare of agricultural land in Perlis, Malaysia for a cash consideration of RM156m. The Group believes that this land acquisition presents a unique opportunity for the Group to develop dairy and crop farming capabilities, and to become the first vertically-integrated dairy producer in Malaysia. The purchase comes as Malaysian authority advocates self-sufficiency in the fresh milk market. Subject to transaction completion in phase 1, F&NHB will invest RM650m (with land cost) to develop the land for crop farming, as well as a new modern dairy farm for 4,000 milking cows, for an estimated 40m litres of fresh milk. The Group looks to commence upstream milk production within 24 months of land possession. F&NHB will evaluate future expansion plans once first phase of the development stabilises. The investment in this fully-integrated farm means F&N will have full control over the selection of cows, their feed and each step of the milk processing and packaging. This will allow the Group to meet the rapidly increasing demand for high quality fresh milk, and further advances our push into the liquid milk business, a high growth dairy category in Malaysia. Besides the milk processing plant, the integrated farm will also develop a knowledge centre for dairy and crop farming, and seedling research centre. In line with the Group's push for sustainability, we will adopt sustainable farming methods, using precision technology and good practices to reduce our overall carbon footprint of the crop farm, dairy barns and other facilities. The integrated farm will include solar panel roofing, a biodigester system that converts waste into bio-gas for energy generation, and the repurposing of solid effluent as soil nutrients.

We officially re-entered the beer business this year. Emerald Brewery Myanmar Limited ("**Emerald Brewery**") began commercial operations on October 1, a year after investing US$70m ($105m) in a state-of-the-art brewery, located in Hlegu Township, Yangon. The brewery has started to produce the award-winning *CHANG* beer, and build nationwide distribution to bring this international brew to all corners of the country. With our investment in Emerald Brewery, F&N is now better positioned to capture further growth opportunities in Myanmar.

Through Emerald Brewery, F&N will contribute to Myanmar's economic and social success by investing in local manufacturing, employing local people, engaging local suppliers and distributors and supporting community investment programs. F&N's capital investment has been deployed to build a modern brewery which will deliver an annual beer production capacity of 500,000 hectolitres, to grow logistics including sales and distribution operations, as well as drive marketing and people capabilities.

EMERALD BREWERY
MYANMAR LIMITED

SUSTAINABLE OPERATIONS

Sustainability and innovation are grounded in the operations at Emerald Brewery, with brand new machinery supplied by industry-leading Krones offering smart energy-saving features. By investing in new technology, the brewery will enjoy water, electricity and thermal energy savings for improved efficiency and productivity.

In addition, a cutting-edge Kubota Johkasou wastewater treatment system developed and manufactured in Japan has been installed at the brewery to ensure that treated wastewater meets environmental guidelines. 90% of all treated wastewater will be repurposed for gardening and brewery upkeep.

Solar energy will also be tapped to power up to 30% of all brewery operations. Emerald Brewery will also implement initiatives to reuse and recycle. Bottles that returned from the market will also be assessed for reuse to reduce waste.

Ensuring the Highest Quality of Locally-Produced *CHANG* Beer

The brewing process at Emerald Brewery follows the same approach taken at the *CHANG* beer brewery in Thailand, right down to the water treatment, recipe and ingredients used. The location of Emerald Brewery's facility was determined after extensive evaluations of water quality at 37 water port sites. This has ensured that the water used for the brewing process is high in purity and exceeds World Health Organisation parameters. Raw ingredients are being imported, with malt ordered from Europe and hops brought in from Germany and the US. Throughout the brewing process, more than 250 inspection check points will be implemented to ensure the quality of locally-produced *CHANG* beer.

Prior to the launch of brewery operations, Emerald Brewery assigned 80 team members to receive intensive training over a one-month period from the *CHANG* team in Bangkok, Thailand. This was followed by additional training programmes held in Yangon focusing on areas such as the brewing process, quality checks, and safety.

Emerald Brewery's facility will pack and distribute *CHANG* beer in five formats – 330ml and 500ml cans, 320ml and 620ml bottles and 30-litre keg. The brewery will also be able to accommodate an expansion in production capacity in the coming years.

F&N's standards for corporate ethics are being incorporated into Emerald Brewery's business practices in Myanmar. This includes strict adherence to human and workplace rights and safety, supplier guiding principles, code of business conduct and anti-bribery policies.

TARGETTED APPROACHES DELIVERED SUCCESS

In this turbulent market, we have been strategically investing in our brands and executing our commercial plans to support brand health and growth agenda. Through a multi-pronged approach focusing on innovation and acquisition, F&N continues to reshape its brand and product portfolios so that we are closely aligned with changing consumer behaviour, and are able to stay ahead of the trend curve.

(A) Innovation

We are committed to shaping our beverage portfolio to meet changing consumer demands and health trends, by reducing added sugar in our beverage range, and by broadening our product choices. We will build on our core brands — *100PLUS* (isotonic), *F&N SEASONS* and *OYOSHI/OISHI* (tea), *F&N MAGNOLIA* (milk and drinking yoghurt) and *F&N ICE MOUNTAIN* (water); and further expand our portfolio of nutritious products in growing categories, such as isotonic, tea, soya and yoghurt. To that end, a key part of the Group's strategy is understanding how the Group can make our core brands more relevant to our consumers, from a health and wellness standpoint. Our impressive results demonstrated the successful execution of this strategy – in Malaysia, *100PLUS* continues to lead in the carbonates segment; *F&N NUTRISOY* and *F&N SEASONS* remain Malaysians favourite soya drink; *F&N SEASONS* and *OYOSHI* are the No.1 RTD tea brands (Asian Drinks); in our dairy business, our canned milk brands, *F&N*, *TEAPOT* and *CARNATION*, continued to be the favourite amongst Malaysians and Thais.

This year, we have further broadened our reduced- and no-calorie sparkling and still beverages, modifying our offerings to be even more relevant to our consumers and customers. In Malaysia, to encourage healthier consumption, about 90% of our RTD products have been reformulated to limit sugar content to below 5%. The newly reformulated sugar-reduced variants included the entire *100PLUS* RTD range, most of *F&N* Sparkling Drinks and *F&N SEASONS* range, amongst others. We are also encouraging portion-control and providing "affordable options" by marketing smaller pack sizes – 250ml and 1.2L – for selected *100PLUS* flavours. We have also refreshed the sparkling portfolio with festivity

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flavours, such as limited-edition *100PLUS*, *F&N SEASONS* Pu-Erh Chrysanthemum Tea and *F&N* Orange Classic and *F&N* Sarsi Classic for Chinese New Year. As part of the special promotions and trade activity for Ramadan and Hari Raya festivities, we introduced the limited-edition *F&N* Lychee Pear sparkling drink, with an improved recipe that was certified a Healthier Choice product, as well as fruity variants of *100PLUS*. For Christmas, *FARMHOUSE* launched a limited-edition peppermint chocolate flavoured milk. Dairies fortified its existing brands with added nutritional benefits. *F&N NUTRISOY* added purple sweet potato to its reduced sugar fresh soya range; juicy pear bits were added to *F&N MAGNOLIA* peach flavour yoghurt smoothie; and three super vegetables (kale, broccoli and spinach) also became part of *F&N FRUIT TREE* FRESH Wonders range of no-sugar added juice drink. In Myanmar, we rolled out an extension of *100PLUS*' non-carbonated range, *100PLUS* ACTIVE Tasty Lemon. Specially formulated to suit local tastes, it facilitates energy production and aids after-sports recovery, just like its regular range. These new products generated excitement in our markets and accelerated the growth of our brands.

F&N maintains a strong multi-year innovation pipeline that will continue to drive growth in the future. We are confident of our approach to meeting regulatory challenges, and we believe that the evolution of consumer trends offers us further opportunities for growth.

We also recognise that the Group must continue to leverage resources that are available to us from outside our business, as these can catalyse innovation that gives our business a competitive advantage. This year, we entered into a long-term partnership with Nanyang Technological University's ("**NTU**") Food Science and Technology program to strengthen our research and development capabilities. This partnership offers us the opportunity to tap NTU's strengths in research excellence as well as its cutting-edge facilities to make impactful scientific discoveries that enhance our innovation pipeline and advance the quality of F&N's products. We have since embarked on research projects ranging from enhancing food products and processes to developing biodegradable packaging solutions for the F&B industry, which also furthers our sustainability efforts. We look forward to bringing these innovations to fruition in the commercial world. Also, F&N's membership of Food Industry Asia gives us valuable access to industry information and helps enhance and improve the delivery of quality beverages to our consumers.

In addition, we continued to adopt initiatives to reduce our impact on the environment, including efforts to conserve raw materials and energy; reducing greenhouse gas emissions across our businesses; recycling and conserving water; minimising waste in the production process and post-consumption; creating greater energy efficiency in our operations and using renewable energy where possible; and optimizing packaging technology to lower environmental impact, including

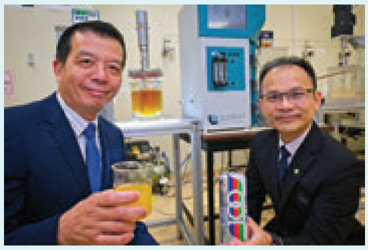

Photo credit: NTU Singapore

NTU and F&N have jointly opened a laboratory in Singapore to develop innovative products and recipes across its beverage offering. Spanning four years, the partnership will see around 30 researchers and students from NTU Singapore and F&N working together to translate food technology innovations to fast-moving consumer goods industry applications. Research projects range from enhancing food products and processes to developing biodegradable packaging solutions for the food & beverage industry.

One of the research projects is looking for ways to naturally extend the shelf-life and improve safety our products with the application of flavonoids. Organic compounds found in almost all fruits and vegetables, flavonoids have shown to keep food fresher for a longer period of time. The research team will also be looking at developing new beverages with additional health benefits, as well as developing new kinds of environmentally friendly packaging solutions.

Read more from our Sustainability Report pages 28 to 33.

reducing PET resin packaging of key products; and reducing our post-consumption waste by promoting environmental consciousness.

(B) Investing In Brands

We are supporting our innovation program with integrated marketing campaigns, using television, radio, print and digital assets, across a range of distribution channels, to engage more effectively with our consumers. As social media and mobile technology disrupts the F&B retail landscape and old ways of doing business, new opportunities have been created for us to interact with retailers, shoppers and consumers. F&N embraces this shift and continues to invest in digital capabilities to maximise our relevance, complemented by existing channel and marketing activities.

In addition to traditional marketing media, we engage consumers on multiple digital channels – leveraging Facebook, Twitter, Instagram, etc – in innovative ways to produce compelling content, drive engagement and build brand equity. The rollout of *OYOSHI* Sakura Strawberry Green Tea in Malaysia for example, was supported by 360-degree above- and below-the-line marketing campaign where *OYOSHI* was presented at all points of consumer contact. The successful campaign resulted in significant sales volumes of *OYOSHI* that fuelled a market share gain of 6.9-points. There was also a 2.5-month long campaign, JOM SEASONS contest, for *F&N SEASONS*, in conjunction with the introduction with the two new tea drinks. This campaign covered the entire buying cycle, from discovery to purchase to repeat customer, encompassing mobile, experiential, product, digital and social media. *100PLUS* also went beyond the traditional marketing outlets to drive consumption and build brand awareness. As a strong advocate of sports, this year, *100PLUS* scored the regional sponsorship for the AFF SUZUKI CUP 2018, Southeast Asia's most watched football tournament. As the Official Hydration Partner, *100PLUS* enjoyed regional association with the tournament through its marketing programs – including on official tournament collateral such as pitch-side advertising boards – on different platforms, across the match venues located in 11 ASEAN countries, including Singapore, Malaysia, Indonesia and Thailand. *100PLUS* also ramped up its marketing efforts, executing AFF SUZUKI CUP 2018-themed marketing using multiple digital channels and combining it with experiential marketing across its markets to drive consumer engagement and increase brand awareness.

Our innovation and marketing strategy require us to constantly look at ways we bring our products to our consumers: an enhanced, cost-efficient, route-to-market approach. As we look back on 2018/19, it is clear that not only was the structure of media channels changing, the impact of digital technology on route-to-market structure has also transformed the shopper experience, leaving the way open for many more players to enter our markets. To this end, F&N has been investing not only in digital marketing, we have also been developing our e-commerce business, to respond better to the needs of customers and consumers. We actively prioritise strategic partnerships with online retailers, working to ensure our products are well-represented on their platforms where our consumers can find and obtain them.

OUTLOOK

Political and economic uncertainty around our region will undoubtedly continue. Malaysia domestic market is expected to remain challenging, given the relatively weak consumer confidence and intense competition. This is especially in the canned milk segment where we continue to see strong pricing competition, with rising input costs adding to margin pressure. For beverages, while we have taken necessary steps, including introducing extensive portfolio of healthier options and portion control, its outlook remains uncertain. We continue to monitor market acceptance and offtake while continuing our efforts to introduce innovative products that will meet our consumers' needs. The outlook for Thailand fares better, following improvement in both sweetened condensed and evaporated milk segments. We will continue to invest in brand building to strengthen our product portfolio. Singapore, as an open economy, is expected to have muted economic growth in light of the US-China trade tensions and slowdown in global trading. Nonetheless, we have consistently demonstrated that we are a strong, agile business, operating in a resilient segment. Looking ahead to fiscal 2020, the company expects to continue to capitalize on the opportunities presented for growing our businesses, both in our core and new markets. The Group will continue to prioritise strengthening its commercial operations, route-to-market execution, accelerating innovation and improving efficiencies across its businesses. Given the uncertain external environment, the Group will continue to be vigilant and, at the same time, explore new growth opportunities that may arise.