CEO's Message

Building Resilience

Hui Choon Kit
Chief Executive Officer

In a year when the effects of COVID-19 and climate change continues to be felt across the globe, when the geopolitical landscape remains complex, and when challenges ranging from inflation to supply-chain bottlenecks rattled the global economy, F&N's resilience was not only tested – it was once again demonstrated. That resilience is a testament to the strength of the business we have developed over the last 139 years, as well as the quality and commitment of our people.

Our proactive approach that helped us navigate this multi-faceted crisis, and many of the earlier crises, enabled us to strengthen the organisational core and technological capabilities and deliver focused execution. Notwithstanding the many challenges along the way, this year, we were able to continue to strengthen our market positions, drive volumes and sales.

FY2022 FINANCIAL PERFORMANCE

Despite COVID-19-induced disruptions in the first-half of the fiscal year, the Group posted full-year revenue of $2,003.2m, up 7% from $1,879.2m in the prior year ("**FY2021**"), lifted by Food & Beverage ("**F&B**") division. However, in spite of higher sales, stringent cost management and cost-reduction exercises, earnings were squeezed by a combination of rising input costs, the spike in freight and energy charges, as well as adverse foreign currency translation impact. Consequently, Group FY2022 PBIT decreased 11% to $233.4m, down from $261.7m in FY2021. After-tax profit also fell, by 9% to $176.9m, from $195.5m a year ago. This year's after-tax profit included a $7.4m exceptional charge, which arose largely from the impairment of inventories and property, plant and equipment as a result of flash floods in Malaysia in December 2021.

F&B FY2022 PERFORMANCE

Our F&B division has proven resilient, achieving a healthy performance, driven by operational excellence and financial prudence.

F&B's FY2022 revenue increased 8% from a year ago to $1,767.9m, from $1,642.8m. Its strong growth was buoyed by higher selling prices, as well as increased soft drinks and beer (collectively, "**Beverages**") volumes coming from successful promotion campaigns and new product launches. In spite of higher Beverages and Dairies sales, stringent cost management and cost-reduction exercises, F&B saw its profits narrow by 10%, to $232.9m from $258.1m last year. Supply chain strains and higher input costs, as well as adverse foreign currency translation eroded margins.

Beverages and Dairies drove F&B's strong growth. Beverages, in particular, saw FY2022 top line grow 26%, to $568.9m from $452.7m in FY2021. This stellar performance resulted from higher selling prices, as well as higher beer and soft drinks volumes coming from successful promotion campaigns and new product launches, as well as recovery of economic activities in Malaysia.

Dairies sales rebounded strongly in 2H2022 on easing of lockdown measures, price increases and effective promotions and loyalty programs, cushioning the adverse impact of a weaker 1H2022. In Thailand, despite lower export volume, strong domestic and Indochina canned milk demand and higher selling prices drove revenue. In Dairies Malaysia, higher revenue was due to price increases. Consequently, Dairies FY2022 revenue increased 1% to $1,199.1m, from $1,190.0m in the previous year.

As with all businesses, sustained input costs pressures and adverse impact of foreign currency translation impacted earnings. Despite higher sales and numerous cost reduction measures, F&B FY2022 PBIT fell 10% (at -8% on a constant currency basis) to $232.9m, from $258.1m in the prior year.

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Revenue

$2,003.2m

$1,879.2m in FY2021

- Revenue growth was driven by strong F&B performance

Profit Before Interest & Taxation

$233.4m

$261.7m in FY2021

- Sustained input costs pressures and adverse impact of foreign currency translation impacted earnings

Notwithstanding cost increases and the impact of foreign exchange differences on translation from overseas operations, our Beverages division continued to prove resilient. Its FY2022 earnings grew 89%, to $37.8m from $20.0m a year ago, on higher sales and lower operating expenses. Beverages accounted for 16% of the Group's FY2022 earnings.

The strong earnings growth in Beverages was supported by Beverages Malaysia, our largest soft drinks market. This year, earnings surged 59%, as a result of strong volume growth and price increases, lower promotional and targeted marketing spend, and favourable sales mix. Singapore and New Markets earnings also improved, albeit marginally, as we continued to protect our margins by reining in expenses.

Growth of our brewery in Myanmar has continued apace despite the challenging operating environment. This year, Emerald Brewery Myanmar Limited ("**EBML**") continued to widen its distribution and grow market share. FY2022 revenue grew 77% on volume growth of 80%. However, the unfavourable foreign exchange rate movements continued to impact its earnings.

Unlike Beverages, Dairies profitability was more heavily impacted by high input costs. Dairies FY2022 earnings fell 18% from last year, to $195.1m from $238.1m. Dairies accounted for 84% of Group's profit.

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This year, the weaker Dairies performance was largely due to Dairies Thailand, where earnings were weighed down by higher milk powder price, packaging costs, and unfavourable foreign currency translation. As some of its products are on the Thai government's price watch list, there were delays in passing on cost increases. Earnings fell 27%. Similarly, the Group's associate company in Vietnam, the Vietnam Dairy Products Joint Stock Company ("**Vinamilk**") also contributed to the weaker performance. Impacted by higher input costs and unfavourable foreign currency translation, the Group's share of profit from Vinamilk fell by $14.3m, to $97.4m. On a more positive note, Dairies Malaysia FY2022 earnings improved on higher selling prices.

P&P FY2022 PERFORMANCE

Printing and Publishing ("**P&P**") FY2022 revenue fell 3%, to $214.6m. COVID-19 pandemic movement restriction measures severely affected its 1H2022 performance. 2H2022 saw strong performance from Education with its non-print digital and education services segment performing strongly, and Distribution recording strong book sales. However, the strong second half could not make up for the difficult first half.

P&P's profitability was also impacted by higher input costs and freight charges, despite continued cost discipline. Coupled with lower revenue, P&P's FY2022 losses widened to $10.8m, from $2.5m in the previous year.

STRATEGIC PILLARS TO BUILDING A SUSTAINABLE BUSINESS

Our performance in the past couple of years have demonstrated the resiliency of our business and the strength of our diversified portfolio. While we continue to proactively navigate this inflationary environment, and take deliberate steps to further enhance our resiliency, we are doubling down on the initiatives that have worked well and delivered results. Building on the strong quarter 4 FY2022 momentum, we will continue to drive productivity improvements to fund growth investments, mitigate input cost challenges and maintain balanced top- and bottom-line growth.

(A) PRIORITISING INNOVATION

One of our priorities in this fast-changing world is to stay relevant and continue to offer products our consumers desire. To keep up with, and even influence, these changes, we continue to utilise deep consumer insights. We also adopt a disciplined innovation framework that enables us to correctly allocate resources to initiatives that will deliver relevant products. We continue to invest in brand stewardship of our core brands, and execute sales and marketing activities to nurture brand health and drive sustainable growth. Through this multi-pronged approach, F&N continues to reshape its brand and product portfolios, to stay ahead of the trend curve.

We continue to broaden our reduced- and no-calorie sparkling and still beverages, modifying our offerings to stay relevant to our consumers and customers. These initiatives shape our beverage portfolio to meet changing consumer demands and health trends.

As a strong advocate of healthy living, we partnered the renowned Raisio Group from Finland to launch VITAPLUS Benecol®, a cholesterol-lowering functional drink in Singapore. Benecol® is a clinically proven plant-based natural ingredient to lower cholesterol.

To excite our markets, we continued to rollout limited-edition flavours and festivity packaging across our markets. In Singapore and Malaysia, we thrilled consumers with Chinese New Year packaging for 100PLUS and F&N Sparkling Drinks, and F&N SEASONS Soya Rose, a rose flavoured soya drink in Malaysia for Hari Raya; and the limited-edition F&N ICE MOUNTAIN Sparkling Water Yuzu Osmanthus, the F&N MAGNOLIA Hazelnut Chocolate Milk and F&N NUTRISOY Fresh Soya Milk with Real Purple Rice in Singapore.

Looking at our results, in the context of the current operating environment, I am encouraged by the progress we are making and the successes in the execution of our initiatives – in Malaysia, 100PLUS continues to lead in the carbonated and isotonic segments; F&N NUTRISOY and F&N SEASONS remain Malaysians favourite soya drink; and F&N Teh Tarik, F&N SEASONS and OYOSHI are the leading RTD tea brands; in our dairy business, our canned milk brands, F&N, TEAPOT and CARNATION, continued to lead in Malaysia and Thailand.

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

(B) INVESTING IN BRANDS

While innovation is a top priority for F&N, we put as much energy and investment into the marketing of new offerings as we do in generating them. We strive to understand and anticipate our consumers' evolving needs, and identify emerging segments, be they channels, occasions or products, and assess opportunities. We then develop an entire go-to-market plan which aims to get our brands engaging with the right customers at the right time and place.

The experience of the COVID-19 pandemic has taught us that we should not rely solely on traditional marketing platforms to reach our consumers. As social media and mobile technology continue to shape the F&B retail landscape, 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, to reach our consumers.

We look to engage and build brand equity by producing compelling content, leveraging social media platforms such as Facebook, Twitter, Instagram and TikTok. Online advertorials, social media advertising on Facebook and Instagram, in-store displays and point of sales materials were adopted as key consumer touchpoints. We also partnered with social media influencers and content partners to generate brand excitement and awareness.

F&N has 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, ensuring our products are well-represented on their platforms for our consumers to find.

(C) BUILDING A SUSTAINABLE SUPPLY CHAIN

We are doing our part to address critical environmental issues affecting the whole world by building a sustainable supply chain. From innovation to point-of-sale, each stage of the product's life is studied in order to reduce our environmental impact: such as promoting the use of recyclable materials, reducing energy consumption, emitting less pollutive gases, and optimising resources, especially water. Our goal is to reduce environmental impact while improving product quality and financial performance.

This year, we enhanced our sustainability credentials with the deployment of a 10 MWp solar energy panel array across the rooftops of our Shah Alam, Pulau Indah and Bentong plants, making it collectively one of the biggest rooftop solar photovoltaic systems in Malaysia. These panels will replace part of our electricity needs with clean energy, which would result in an estimated savings of up to $1m in energy costs.

We have invested in a new integrated warehouse building in Shah Alam, Malaysia that features an Automatic Storage & Retrieval System ("**ASRS**"), and set up a regional distribution centre in Rojana, Thailand. These new facilities allow the Group to achieve improved operational and cost efficiencies of more than $3m annual savings in logistics cost, as well as reduce our carbon footprint. Similarly in Singapore, the newly completed smart, sustainable facility in Tuas obtained its temporary occupation permit in September 2022. This new plant will expand our capabilities across all aspects, from production and warehousing to strengthening our research and development. The enhanced capabilities will enable us to expand our dairy and beverage offerings with sustainable packaging solutions.

(D) INFRASTRUCTURE OPTIMISATION

Our 13 F&B factories in Singapore, Malaysia, Myanmar and Thailand have placed us in good position to serve our markets faster and more cost effectively. As part of the New Product Development Transformation programme, we continuously seek innovations to optimise our infrastructure across the system.

To that end, we have invested in new facilities to enable our extension into new product offerings. In addition, we have also equipped our plants with the latest technological capabilities and added capacity to enhance operational efficiency and equip our organisation for future growth.

This year, the Group completed the construction of a $39m liquid milk and plant-based factory in Wangmuang, Thailand, and the $6m drinking water plant in Kota Kinabalu. The liquid milk and plant-based plant in Thailand represents a shift for F&N to reduce reliance on condensed milk and grow the brand in the liquid milk segment. Our plant in Pulau Indah is now fully equipped with plant-based beverage production capability.

(E) EXPANDING INTO NEW BUSINESSES

Last year, the Group acquired the Sri Nona Group as our first step in fulfilling our objective of building a packaged food pillar commensurate with our Beverages and Dairies businesses. This year, the Group accelerated its push into packaged food by acquiring the remaining 72.4% equity interest of Cocoaland Holdings Berhad ("**Cocoaland**") not owned by us. The acquisition adds established Malaysian confectionery and snack brands to F&NHB's portfolio of renowned brands, and serves as a platform to build on and expand into the $1.2b packaged food segment. By combining Cocoaland's and F&N's brand marketing expertise and extensive distribution, we now have a vehicle to fast-track our growth in the packaged food segment, fulfilling our ambition to be a stable and sustainable Food & Beverage leader in the ASEAN region.

In addition to our push into packaged food, we are also vertically integrating our Dairies business, with a RM1.5b ($460m) investment commitment into dairy farming. In October, through a subsidiary of F&NHB, the Group successfully acquired Ladang Permai Damai Sdn Bhd for a cash consideration of RM216m ($67m). Ladang Permai Damai owns eight parcels of agricultural leasehold land measuring in aggregate 2,726 ha. The intention is to use these land to build and run an integrated dairy farm facility so as to secure the supply of high-quality fresh milk, thereby allowing the Group to further advance our push into the fast-growing liquid milk segment in Malaysia.

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Our print business is also seeking out new avenues for revenue beyond traditional print. Using Printing's existing infrastructure, the Group opened its first eco-solutions manufacturing facility, Green Lab, in Singapore. Green Lab provides sustainable solutions for businesses in the ASEAN region, such as biodegradable and compostable kraft paper bags and food & beverage consumables. It also offers a plastic bag substitute made from recycled industrial waste cassava roots. Green Lab has since secured several customers for its sustainable packaging business. F&N Group will also be switching the packaging of our products to sustainable and eco-friendly alternatives produced by Green Lab.

OUTLOOK

Entering FY2023, while we saw strong sales momentum in the final quarter of FY2022, the operating environment clearly remains challenging. With growing interdependencies between economies and international trade, the effects of an economic slowdown in one will be felt more acutely

GREEN LAB

Green Lab is a joint partnership between Times Printers and Print Lab (a 60%-held subsidiary). By adapting existing printing machinery and installing state-of-the-art ancillary packaging print equipment at our existing print facility in Singapore, this fully automated eco-packaging equipment can produce over 400 million units of sustainable packaging products each year.

Green Lab offers customers highly-customisable biodegradable paper bags, fully compostable plant-based alternative for plastic carrier bags, an extensive range of fully-compostable F&B packaging and cutlery supplies, eco-packaging boxes and eco-pouches. Our products are also printed with environmentally friendly soy-based printing ink.

We are committed to make Green Lab a role model for other Singapore businesses. We want, to show the businesses that it is possible to run an economically sustainable business that contributes positively to both the national and regional economies, while conserving the planet's resources. We envision ourselves to cultivate a world where being green is no longer a cost of doing business.

Part of our sustainable packaging offering is CASSA180, a bag that comes in all shapes and colours made entirely from industrial waste cassava roots that is 100% biodegradable and compostable. CASSA180 has the strength and durability of plastic bags and has also passed the oral toxicity test. The state-of-the art machines used to produce these bags save energy by using lower temperatures than conventional plastic-blown film machines.

Green Lab's kraft paper bags are made only with either FSC-certified paper or fully-recycled kraft paper. As our production lines are fully automated, we have shaved off significant labour cost and are able to offer our customers premium eco-friendly paper bags at a fraction of the usual cost.

As with our kraft paper bags, our eco-packaging boxes boast superior materials such as 100% biodegradable or recycled paper, FSC-certified card, and soy-based printing ink. We also offer customers a biodegradable alternative to plastic sachets in the form of our paper-based eco-pillow pouch, combating plastic wastage without compromising on strength and quality.

Our 100% compostable F&B consumables made from sugarcane bagasse and corn starch are an eco-friendly packaging alternative to single-use plastics. Made from natural resources, they are excellent alternative to styrofoam and plastic packaging. Our F&B consumables, coated with food-safe resin, are also leak-proof.

elsewhere, unlike the past. That may also have an impact on consumers and possibly our partners alike.

In light of these factors, we entered the new financial year with cautious optimism. Our near-term priority will be to continue to grow brand shares and sales, both sustainably and profitably. That is why we are focusing on driving our costs down, so that we can reinvest in the business and strengthen our brands. We are also focused on the quality of our innovations, and we strive to roll them out further and faster across markets.

I am convinced that our Group has entered this period stronger than before by making the right decisions to keep F&N on its long-term growth path. Our resources and business model can address the current challenges and allow us to emerge from these difficulties stronger than ever, just as we have done many times before.

Hui Choon Kit
Chief Executive Officer