

CREATING SHAREHOLDER VALUE

MATERIAL ISSUES

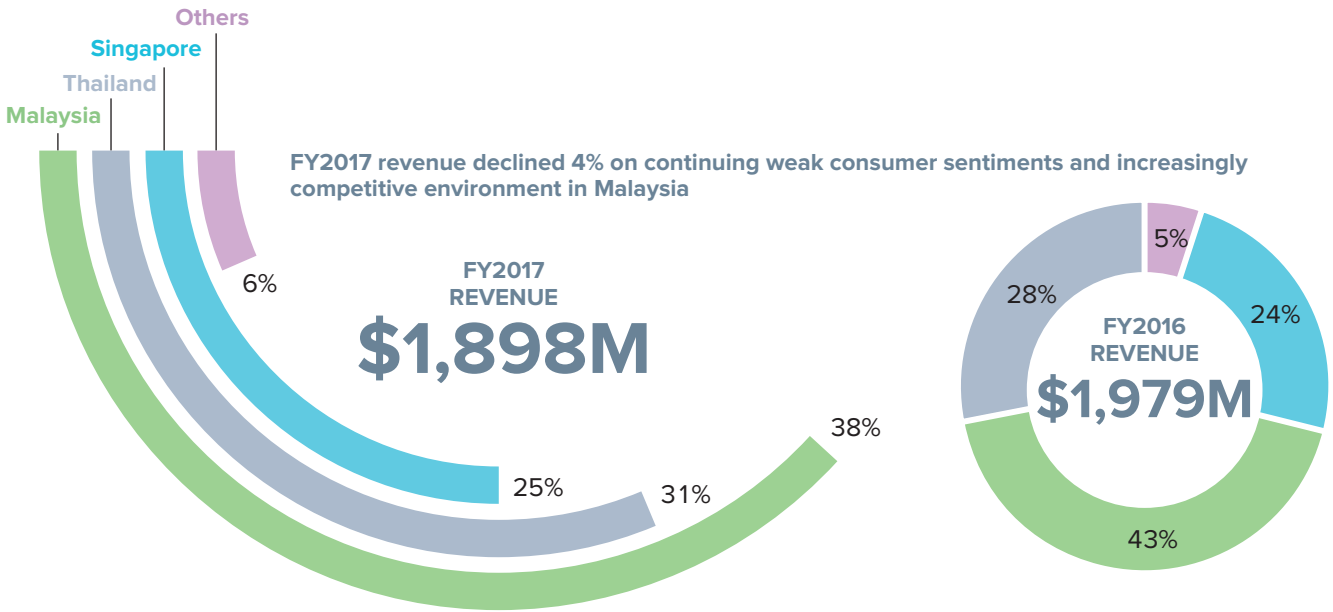
- Economic Performance
- Innovation

We value our shareholders and seek to reward them with healthy returns based on profits on a long-term basis. This requires us to maintain our leadership in the various beverage categories that we are in, keeping up with consumer trends and continuously offering products that delight our consumers. It also requires us to manage our operations efficiently and cost-effectively, encouraging a culture of productivity and innovation among our employees.

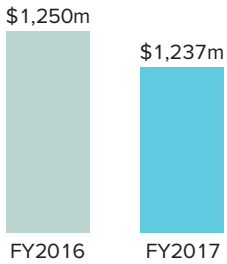


ECONOMIC PERFORMANCE

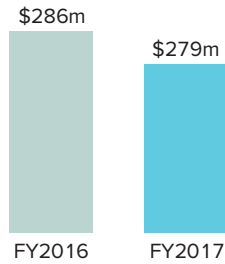
Our economic performance is managed as part of our business strategy. For a more in-depth discussion, please refer to our Annual Report.



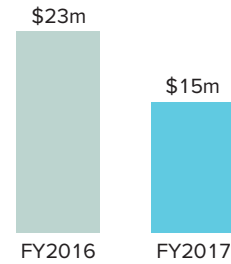
COST OF SALES
Cost of sales fell 1% on lower sales, albeit higher input costs



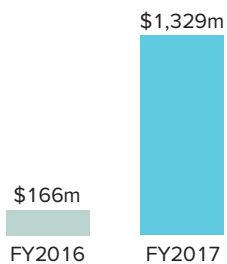
EMPLOYEE BENEFIT EXPENSES³
As a result of voluntary separation scheme, staff costs fell 3%



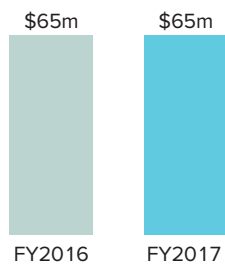
TAXATION
In line with lower earnings, tax fell 35%



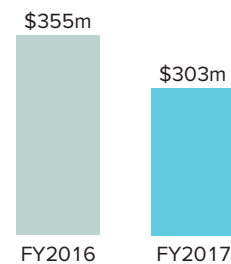
PROFIT AFTER TAX
Boosted by realisation of fair value adjustment reserve¹



DIVIDEND
Total FY2017 dividend amounted to 4.5 cents per share, same as last year



ECONOMIC VALUE RETAINED²



Notes:

- 1 One-off realisation of fair value adjustment reserve upon change of interests in Vinamilk
- 2 Economic value retained = Direct economic value generated (Revenue) less Economic value distributed (Cost of Sales, Employee Benefit Expenses, Taxation, Dividend). Community investments are not included
- 3 Employee Benefit Expenses comprises Staff Costs, Employee Shared Based Expenses Defined Contribution Plans and Defined Benefit Plans

CREATING SHAREHOLDER VALUE

INNOVATION

Innovation is critical to maintaining our leadership positions and competitive advantage in the marketplace. By innovating, we can develop better, more exciting products to tantalise our customers; we can design more environment-friendly processes as well as packaging to minimise our environmental impact; and we are able to increase operational efficiencies hence reduce our costs. Innovation helps us meet increasing demand for healthier food while increasing our speed to market, giving us a competitive advantage over other F&B players.

Our Innovative Framework

PRIORITY AREAS	EXTERNAL COLLABORATION	INNOVATION CULTURE
<p>Continuous improvement to deliver high-quality innovative beverage products to consumers.</p> <p>More new products to expand our target consumer groups.</p>	<p>Collaborate with authorities such as Singapore's Health Promotion Board (HPB), Agri-Food & Veterinary Authority (AVA), Ministry of Health, Federation of Malaysian Manufacturers (FMM) and Thailand's Food and Drug Administration (FDA) to adhere to food safety regulations, and support national health priorities.</p> <p>Collaborate with research institutes to access cutting-edge research and scientific studies to discern the efficacy of our products.</p>	<p>Develop products based on scientific research, consumer insights and tastes relevant to evolving Asian lifestyles.</p> <p>Constantly refine our products to meet the changing needs of consumers, and ensure consistent delivery of great taste and the right nutritional values.</p>

Product Innovation

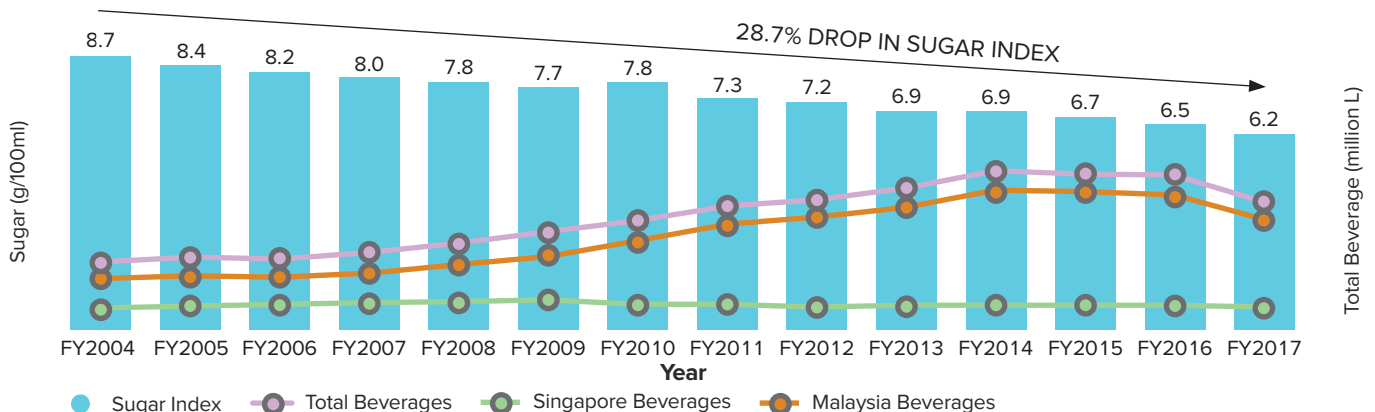
Product innovation at F&N is led by a Research & Development (R&D) unit based in Singapore, with teams in Malaysia and Thailand. In addition to the development of exciting new products that are both delicious and nutritious, the R&D team adapts existing product formulas according to process changes and changes in the regulatory environment, while searching for ways to improve a product's shelf-life and meet growing demand for environment-friendly packaging.

Any change in a product recipe necessarily requires a large amount of R&D to ensure the new formula does not compromise on taste, safety or nutritional value. In addition, the new formula would have to meet our cost and manufacturing capabilities constraints.

Sweet Success with Less Sugar

In recent years, the team has focused on reducing the sugar content of various products while retaining their nutritional value by incorporating proteins, antioxidants, calcium and other vitamins and minerals. As a result, F&N's Sugar Index – which measures the amount of sugar in our beverages in grams per 100 millilitres (g/100ml) – has been dropping steadily over the years – sugar index fell 28% between FY2004 and FY2017. At the same time, an increasingly large number of our beverages are being recognised by the relevant authorities for their nutritional value. In Singapore, a large number of our products are endorsed with HPB's Healthier Choice Symbol (HCS); and in Malaysia, four products have been awarded the Healthier Choice Logo by Malaysia's Ministry of Health.

Sugar Index for Total Beverages* (Singapore and Malaysia)



* Beverages include isotonic, carbonated soft drinks, tea, soya, juice and water range of products

In response to the Sugar Control Strategy initiated by Singapore's HPB, we have pledged to:

- ✦ Reduce the average sugar content across our ready-to-drink products by 10% in two years
- ✦ Cap the sugar content of sugar-sweetened beverages at 12%

To achieve our targets, R&D constantly engages with suppliers and research institutes to look for alternative sources of sugar, such as low-calorie sweeteners. F&N has been at the forefront of this health movement. As a result of our efforts, F&N today does not have any sweetened beverages over 12% sugar content. We remain fully committed to further reduce the sugar content across our entire ready-to-drink portfolio, and to invest in and promote a HCS portfolio.

In developing new products, R&D is guided by:

- ✦ **Innovation & creation** in terms of product, processes, packaging and sensory science. Sensory science refers to a scientific method of measuring and interpreting consumers' response to prototypes/products based on the senses of sense, smell and touch (texture). For example, before a new supplier of raw materials is engaged, taste sessions are held to determine if there is any significant difference in taste of the end product using the new ingredients
- ✦ **Technical developments** that support quality improvement and cost optimisation
- ✦ **Quality products** that meet food safety standards and qualify as alternative suppliers/OEM
- ✦ **Regulatory compliance** on local and export business
- ✦ **Scientific advances** for application in our processes and products

Award-Winning Products

Our financial performance is determined to a large extent by sales of our portfolio of products. Sales, meanwhile, is affected by consumer preference and choice. As consumer tastes tend to evolve, we engage an independent market research agency to help us monitor our 'brand health', namely how well regarded our brands are by consumers.

Arising from these three-monthly surveys, we were able to understand the impact of marketing activities on an ongoing basis. The surveys are conducted either door-to-door or by Computer Assisted Phone Interviews (CAPI) among consumers aged 12-19, who were selected randomly.

Using the results of brand health surveys, as well as our own observations of market trends, we keep evolving our products to meet consumers' tastes. As a result, many of our brands are leaders in their categories, and have won numerous awards for being consumer favourites. Among the accolades this year are:

Product of the Year Award

The award is given to packaged goods that demonstrate innovation and were launched within the year. Winners are determined by the

votes of more than 2,000 households through online and face-to-face surveys conducted by The Nielsen Company (Malaysia) Sdn Bhd. In 2017, 100PLUS Active won in the Isotonic Category while OISHI won in the Green Tea Category.

Family Choice Campaign

Awards under this programme are given based on the votes of more than 6,000 consumers who participated in a survey conducted by Giant Malaysia from 6 April – 3 May 2017. 100PLUS was named the Best Isotonic Drink while F&N Sweetened Condensed Creamer won in the Best Condensed Creamer category.

Putra Brand Awards

Putra Brand Awards is the premier brand awards in Malaysia. It is the only brand awards in the country endorsed by Malaysia External Trade Development Corporation (MATRADE) and supported by the Branding Association of Malaysia (BAM), the Malaysian Advertisers Association (MAA), and the Media Specialists Association (MSA). 100PLUS was once again named one of the top brands in the Non-Alcoholic Beverage category in 2017 while its marketing team won The Board of Governor's Putra Marketer of the Year award for their innovation and creativity in building the brand. The awards are based on market research conducted on about 6,000 consumers.



FAMILY CHOICE CAMPAIGN

**100PLUS NAMED
 BEST ISOTONIC DRINK**

CREATING SHAREHOLDER VALUE



During the year, seven new products were launched in Singapore, each of which was awarded the HCS by HPB. The HCS was introduced to help consumers make healthier choices while grocery shopping. In Singapore, about 2,600 food products spanning over 60 food categories such as convenience meals, sauces, beverages and breakfast cereals now carry the symbol.

F&N MAGNOLIA Gotcha

This year, the F&N MAGNOLIA Gotcha range, targeted at Singaporean children was enhanced with yet another healthy product - F&N MAGNOLIA Gotcha Jelly Cool. The ice cream with a jelly core is free of trans-fat and low in calories. Like all F&N MAGNOLIA Gotcha ice creams, the new variant also carries the HCS.

F&N FRUIT TREE Fresh Wonders Zesty Lime and F&N FRUIT TREE Fresh Wonders Luscious Berries

Both F&N FRUIT TREE Fresh Wonders drinks are made from 100% juice with no added sugar or artificial sweetener, and are the first drinks in Singapore to incorporate chia seeds – a superfood

that is rich in antioxidants, omega-3 and omega-6 fatty acids, which have been associated with cardio-protective effects¹. They are also high in Vitamin C, which has been linked with reduced risk of cardiovascular diseases² and contain immune-boosters³ Vitamins A and E.



OISHI Kabusecha Tea (No Sugar and Low Sugar)


OISHI Kabusecha Tea is full of flavonoids and antioxidants which help to protect the body from free-radical damage⁴. The tea is made from the youngest leaves at the top of branches, which are partially shaded one to two weeks prior to harvesting to protect against direct sunlight and increase their amino acid content⁵. OISHI Kabusecha Tea is also free from preservatives and artificial colouring.



- 1 Source: Journal of Food Science and Technology, 2016
- 2 Source: Journal of the American College of Cardiology, 2003
- 3 Source: British Journal of Nutrition, 2002; Nature Reviews Immunology, 2008
- 4 Source: Proceedings of Japan Academy Journal Series B, 2012
- 5 Source: World Heritage Encyclopedia

F&N SEASONS Ice Lemon Tea Reduced Sugar

The new reformulated drink has 36% less sugar than our regular iced lemon tea, and contains antioxidants. It has been endorsed with the HCS by Singapore's HPB.



Healthier F&N MAGNOLIA Milk
 During the year, we also launched a reduced sugar version of F&N MAGNOLIA Low Fat Hi Cal Chocolate Flavoured Milk, which has been certified with the 'Lower in Sugar' Healthier Choice symbol.

In Malaysia, we launched 100PLUS Active and F&N NUTRISOY Fresh. 100PLUS Active, formulated to be non-gassy to meet a general preference by athletes, has been awarded the Healthier Choice Logo by the Nutrition Division of the Ministry of Health. F&N NUTRISOY Fresh is the first pasteurised fresh soya milk in Malaysia, and comes in a lite (less sweet) option.

We also introduced new F&N SEASONS Sleek Cans in November for all F&N SEASONS tea products in Malaysia. The taller and slimmer cans are visually attractive, can be stored in small compartments, and are easier to hold.

Consumers in Thailand welcomed two new BEAR BRAND products - BEAR BRAND Sterilised Milk High Folate and BEAR BRAND Gold Goji Berry rich in Vitamin A. The former, with high folate and iron content, enhances blood circulation. The latter, meanwhile, is enriched with vitamin A for better eyesight.




เอาใจใส่ ทุกความรู้สึก
 ด้วยคุณค่าจากนมโคแท้ 100%

เนสท์โรสตราหม เพื่อคนที่คุณรักและตัวคุณเอง

CREATING SHAREHOLDER VALUE

PACKAGING INNOVATION

We continually strive to innovate the packaging of our products to reduce our environmental footprint and address potential health and safety concerns, as well as appeal to consumer's various usage occasions.

We recently introduced flexible packaging for sweetened condensed milk, catering specifically to buyers' needs in the export market, which has a significantly better product to packaging ratio than the conventional cans. Production of the new laminate packaging emits less CO₂, and there is less waste to dispose of once the product has been consumed. Two new flexible formats have been introduced – the bag in box (BIB) and single serving stick.

PROCESS INNOVATION

We also continuously look to improve our production efficiencies by, amongst others, investing in new, more efficient machinery and equipment. Among our recent investments are:

Electronic For Imaging Technique.

Electronic For Imaging (EFI) has been installed in our Printing business to integrate all processes into a single, seamless workflow where information is shared from its source, without users

having to make double or triple entries at different stages. It also allows certain users to have remote access as part of their job requirement. This enhances efficiencies, enabling a more mobile work environment. To date, the system has led to cost reduction of close to \$300,000.

\$300,000
IN SAVINGS
FROM THE EFI
TECHNIQUE SYSTEM

Soy Extraction Plant Upgrade.

An upgrade at our soy extraction plant in Singapore in 2014 has enabled us to increase our protein yield in a single decanter operation to 70%, from 60% previously.

Integrated Warehouse.

F&NHB has invested over \$59 million in an integrated warehouse in Shah Alam. It will boast an aseptic cold-filling polyethylene terephthalate (PET) line that has a maximum capacity of 720,000 bottles a day. This is expected to not only increase production by 10%, or 6.5 million cases annually, but will also enable the Malaysian operations

THE ASEPTIC COLD-FILLING LINE WILL REDUCE RESIN PACKAGING MATERIAL USAGE BY 40%
FURTHER LOWERING OUR CARBON FOOTPRINT AND PACKAGING COSTS

to expand into new product offerings and packaging formats. In addition, this new PET line will also reduce resin packaging material usage by 40%, further lowering our carbon footprint and packaging costs. The new line will also be integrated with a new warehouse to further reduce our transportation carbon emissions.

Excel As One Convention. F&NHB has been organising the convention since 2015, inviting shop floor employees to present innovative ideas to help improve productivity, increase efficiencies and reduce costs in the production lines. In FY2017, the convention saw 22 projects that carried a combined cost savings of about \$2.4 million per annum.



The winning project in the Innovative and Creative Circle (ICC) category, To Improve Preform Gripper Efficiency, corrected a misalignment in the shaft of the machinery to reduce downtime, and led to savings of about \$500,000 a year.

IN 2017, AT THE EXCEL AS ONE CONVENTION, 22 TEAMS PRESENTED PROJECTS THAT CARRIED COMBINED COST SAVINGS OF \$2.4 MILLION PER ANNUM

The winning project in the Kaizen category reduced the downtime of the depalletiser due to twist height changeover by 90%. The twist height had to be changed whenever the production line changes from producing tall cans to the standard cans. The team managed to automate the changes required, saving time and reducing the likelihood of damage caused by manual handling.

COST SAVINGS FROM THE POD BASED ON FY16 AND F17 CONSUMPTIONS



PRINTER RENTAL
26%



PAPER USAGE
16%



TONER USAGE
3%

Print-On-Demand. Since May 2017, five Printers On Demand (POD) have been installed in the Malaysia corporate office to minimise unnecessary printing hence reducing paper, ink and energy consumption. In addition to saving paper, the new system ensures confidentiality of information. Based on FY2016 and F2017 consumption, the printers saw about 26% cost savings from printer rental, 16% savings from paper usage, and 3% savings from toner usage.

Integrated Business Planning (IBP).

Based on 2017 statistics for Beverages and Dairies, the average monthly forecast accuracy is about 66% and 55% respectively, where the forecast is usually more than the actual sales. This has led to higher than optimal production, with the concomitant costs of inventory. In June 2017, F&NHB introduced a dynamic analytics solution that crunches large amounts of data to provide more accurate forecasts quickly. By better synchronising supply with demand, we can reduce the number of inventory days. We expect to realise cost benefits from the system only in 2018 after some fine-tuning to produce better forecasts.

Winning As One Convention. At the convention, held annually since 2010, our employees in Dairies Thailand present innovative ideas to help improve productivity, quality, delivery, safety and work ethics while helping to reduce costs and protect the environment. The latest convention, held on 21 July 2017, saw the participation of about 200 employees.



OUR TARGET:

We invest in product and process innovation to increase our product range, and improve efficiency and productivity.

The winners of the Kaizen category presented a "Packing 24 cans per tray" innovation to produce single-layer product trays through the modification of the tray packing machine at an estimated cost of \$850. In comparison, purchase of a new machine to perform the function would have cost about \$830,000.

The winning team under the Small Group Activity category presented a "Reduction of breakdown of Samwoo machine in 2kg pouch packing line" project in which they managed to reduce the frequency of the machine's breakdown by about 57%. As a result, output increased by 2 million pouches per annum and there was less damage to products caused by machine breakdown.

Innovative ideas presented at this convention have brought about an average saving of approximately \$790,000 annually thus far.

AT THE WINNING AS ONE CONVENTION, ABOUT 200 EMPLOYEES PRESENTED INNOVATIVE COST SAVINGS IDEAS THAT HAVE ACHIEVED AN AVERAGE ANNUAL SAVING OF \$790,000