

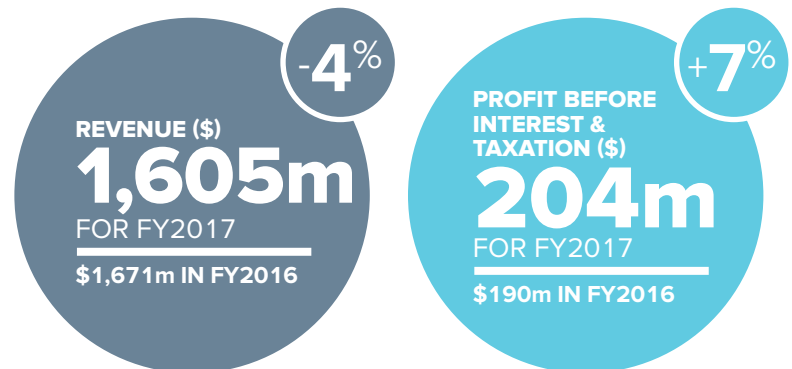


“The leadership positions we have achieved today set us on a firm foundation to seize the significant future growth potential of our F&B business in the region.”

MR LEE MENG TAT  
Chief Executive Officer,  
Non-Alcoholic Beverages

# CEO BUSINESS REVIEW

## BEVERAGES



## BEVERAGES OVERVIEW

FY2017 was a challenging year for our core beverages and dairies businesses. Rising raw material costs, currency fluctuations and declining consumer confidence had an adverse impact on this year's volume, revenue, and profitability in our markets, especially Malaysia where aggressive price cutting by competitors and rising input costs have hurt Food & Beverage ("F&B") volumes and profits. This year, F&B revenue was \$1,605m, down from \$1,671m in FY2016. However, buoyed by higher dividend income (owing to the Group's higher interest in Vietnam Dairy Products Joint Stock Company ("Vinamilk")) and higher Dairies earnings following the maiden recognition of profit from our associated company, Vinamilk, F&B's profit before interest and taxation ("PBIT") rose 7%, to \$204m from \$190m over the past year.

Notwithstanding the challenging business environment, we remain led by our Vision 2020 to become a F&B leader in the ASEAN region, and continued to implement our growth strategy: delivering a balanced and differentiated portfolio, innovating and driving commercial excellence with an inspired team. Our discipline, focus on sound execution and continuous improvements, as well as the dedication of our employees are the foundation of our Group, and have enabled us to defend our strong market positions in our core markets. This year, we maintained our market leadership in isotonic, tea, canned milk and liquid milk categories in Malaysia, Singapore and Thailand.

We continued to invest in our core markets of Singapore, Malaysia and Thailand by stepping up investments in our power brands, capabilities and infrastructure to entrench our leadership positions. We continued to expand regionally – widening and deepening our footprint in Indonesia, Myanmar, Vietnam and Thailand (soft drinks); we focused on initiatives to make our business leaner and more efficient; we invested resources in research and development as well as augmented our management bench for long-term sustainable growth. These strategies have served the Group well and will empower us to stay the course.

## FY2017 FINANCIAL PERFORMANCE

Despite higher sales from Dairies Thailand, New Markets (Indonesia, Myanmar, Thailand and Vietnam) and newly-acquired businesses, F&B FY2017 revenue fell 4% to \$1,605m. The fall in revenue was due mainly to weaker sales from our Malaysia soft drink and dairy businesses, where subdued consumer sentiment adversely impacted consumer spending. Despite the fall in our revenue, F&B FY2017 PBIT improved 7%, to \$204m. The robust earnings growth was a result of strong Dairies performance, which included maiden contribution from Vinamilk. Effective 16 April 2017, the Group accounted for its share of Vinamilk's profit under the equity accounting method, on account of the Group's 18.74% shareholding in Vinamilk and its appointment of a second representative to the board of Vinamilk.

The five-and-a-half months of profit and higher dividend income from Vinamilk, as well as strong Dairies Thailand performance spurred an 24% increase in Dairies FY2017 PBIT. This was despite weaker Dairies Malaysia performance, and a loss in our Beverages division. In particular, Beverages Malaysia had a difficult year with beverage volumes negatively impacted by the overall decline in the category triggered by the weak economy and subdued consumer sentiment. This eventually led to intense price competition in the soft drink market. Taken together with higher input costs and continued brand investment in New Markets, Beverages recorded a loss of \$4m in FY2017.

While sales performances of our segments have been mixed, we are happy to report that our core brands - *100PLUS*, *F&N SEASONS*, *OISHI* and *F&N MAGNOLIA* – continued to command market leading positions in our core markets. The leadership positions we have achieved today set us on a firm foundation to seize the significant future growth potential of our F&B business in the region.

## CORPORATE DEVELOPMENT

Last year, we focused on continuous improvement and equipping the F&B business for the sustainability of F&N. We streamlined the businesses in Malaysia to deliver a leaner, more efficient and effective structure to drive speed and agility. We continued in FY2017 to simplify our organisation structure and our business processes to improve productivity.

## CEO BUSINESS REVIEW - BEVERAGES

Growth opportunities in F&N also came through acquisitions. In December 2016, the Group completed its acquisition of additional shares in Vinamilk through a competitive bid process. These shares represented an approximately 5.4% interests in Vinamilk. Thereafter, through further purchases from the market, the Group continued to increase its stake. As at 30 September 2017, the Group's shareholding in Vinamilk had risen to 18.74%. By virtue of the Group's current shareholding in Vinamilk and the appointment of a second representative to its board, the Group has been deemed, in accordance with the Singapore Financial Reporting Standards, to have significant influence over Vinamilk. Consequently, the Group started to equity account its share of Vinamilk's profit, from 16 April 2017. The five-and-a-half months of profits from Vinamilk amounted to \$51m in this financial year.

On 1 December 2016, the Group exercised a call option to acquire the remaining 30% stake in Yoke Food Industries Sdn Bhd ("YFI") for \$7.5m (RM23.4m). Together with the 70% stake acquired in April 2014, this acquisition effectively increased the Group's shareholding interests in YFI to 100%. A wholly-owned subsidiary, YFI carries on the business of manufacturing, marketing, distributing and exporting of canned beverages, primarily in Indochina, Indonesia, Malaysia and Singapore. This acquisition complements the Group's existing F&B business by offering increased opportunity for the distribution and marketing of its brands in Southeast Asia, especially Indonesia. Through our investment in YFI, we have successfully re-introduced *100PLUS* and *F&N* range of sparkling drinks to Indonesian consumers.

In Malaysia, *100PLUS* reached a new milestone in July 2017 when it sealed a partnership with McDonald's Malaysia to serve *100PLUS* in all 261



McDonald's outlets in Malaysia. Through this partnership, F&N can now offer a healthier beverage option to over 160m Malaysian customers who patronise McDonald's annually. *100PLUS* was chosen by McDonald's Malaysia after much vigorous research and validation, which showed that *100PLUS* is the preferred choice among Malaysians.

### INNOVATION

The Group remains steadfast in our drive to keep our products relevant to consumers, be it a new product, improvement of an existing product or new packaging.

- **A slew of new products**

First on the list was the launch of a non-carbonated version of *100PLUS* – *100PLUS ACTIVE*. *100PLUS ACTIVE* builds on *100PLUS*'s sports heritage and functional credentials to target sporty, fitness-seeking consumers looking for a no-fizz thirst-quencher that can rehydrate, replenish and re-energise them during and after their fitness regimen. *100PLUS ACTIVE* was launched in Malaysia, Myanmar and Singapore to great response.

In addition to *100PLUS ACTIVE*, F&N also responded to consumers' needs by extending its healthier beverage options through the introduction of a new premium range

of *F&N FRUIT TREE Fresh* — *F&N FRUIT TREE Fresh Wonders Luscious Berries* and *F&N FRUIT TREE Fresh Wonders Zesty Lime*, with organic chia seeds, in Singapore. In Thailand, we extended the offering of the much-loved *BEAR BRAND* Gold low-fat sterilised milk with *BEAR BRAND* Gold Goji Berry. This move into product extensions broadened our *F&N FRUIT TREE Fresh* and *BEAR BRAND* appeal into wider drinking occasions and attracted new health-conscious consumers.



This year, the Group also stepped up our initiatives to cut sugar content in our products, rolling out a range of reduced or zero sugar content beverages from our power brands. *OISHI*, the leading ready-to-drink green tea brand in Thailand and Malaysia presented its next chapter of growth by extending its green tea offerings with *OISHI* Kabusecha in Singapore. A premium brew, *OISHI* Kabusecha Green Tea is available in no sugar and low sugar options. *F&N ICE MOUNTAIN*, the leading water brand in Singapore, also recently added a Classic variant to its sparkling water range; and *F&N SEASONS* Ice Lemon Tea, the No.1 black tea in Singapore and Malaysia now comes in reduced sugar option.

F&N was also the first to introduce a pasteurised soya milk range to the dairy industry in Malaysia. *F&N NUTRISOY* extended its No.1 soya milk position with the introduction of two delicious variants of *F&N NUTRISOY* Fresh - *F&N NUTRISOY* Fresh Soya Milk and *F&N NUTRISOY* Fresh Soya Milk Lite.

- **Getting consumers excited with Packaging**

Packaging updates capture consumers' attention and give the Group an opportunity to drive awareness of our brands and sales.

To generate excitement, *100PLUS* rolled out several limited-edition packs throughout FY2017. It started with the gold cans packaging for Chinese New Year Celebration in January 2017, followed by a range of SEA Games-themed limited-edition *100PLUS* packaging, all bearing the official mascot of the Games in August. After the Games, *100PLUS* also rolled out a new gold cans packaging to celebrate Malaysia's success at the Games.

*F&N SEASONS* debuted its very own sleek, new look this year, following the successful introduction of sleek cans for *100PLUS* and *F&N* Sparkling Drinks in 2016. Lightweight and handy, *F&N SEASONS* new sleek cans are easy to grab on-the-go.

### EMERGING STRONGER: OUR TRANSFORMATION JOURNEY CONTINUES

Our performance in FY2017 and in the year ahead takes place in an uncertain and volatile world. In our two largest markets - Malaysia and Thailand - while their economic indicators look positive, overall market conditions are expected to remain challenging and consumer sentiments across the region will remain weak. Looking forward,

we will continue to focus on managing and controlling 'what is in our hands'. This means a singular focus on executing our business strategies well - building our brands, and bringing healthy, 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. Together with my loyal and dedicated team, I look forward to transforming F&N into a leading F&B company in ASEAN, in line with our aspirations in Vision 2020.

