

STRATEGIC REPORT:

*Chief Executive
Officer's*
Statement

LIM YEW HOE

Chief Executive Officer



Dear Shareholders and Stakeholders,

The last few months have been exceedingly challenging due to the COVID-19 pandemic, with movement restrictions impacting everyday life as well as economic activity. Amidst the containment measures and subdued outdoor activities, Fraser & Neave Holdings Bhd (F&NHB or the Group) maintained commendable top and bottom lines in the financial year ended 30 September 2020 (FY2020). More importantly, we made good progress in strategic plans set out for the year 2020 despite the unfavourable circumstances. This was mainly the result of years of focus on creating greater efficiencies as part of our transformation to become a sustainable beverage leader in the region.

Our focus on three strategic priorities, namely Innovation, Cost Competitiveness and Excellence in Execution (I.C.E.) provided the clarity and purpose to navigate through these unprecedented times. The hard work and dedication of our people, as well as the strong relationship and collaboration with suppliers, trade partners and regulatory agencies have enabled us to emerge with better results than anticipated.

Although the beverages markets in Malaysia and Thailand shrank by double digits, we either maintained or grew our leadership in key categories, indicating our effective route to market strategies and strengthened brand value among our customers and consumers.

SERVING UP INNOVATION

PRODUCTS THAT RESONATE WITH CONSUMERS

During the pandemic crisis, while prioritising the availability of our core products, we pushed ahead with product innovation to deliver value choices that resonate with consumers.

One natural outcome of COVID-19 has been the more apparent importance of health and wellness, and it is in this direction that we have been innovating on new products for several years. Half of the ten new products launched this year offer health benefits in different forms.

In Malaysia, we launched three beverages with no sugar at all, namely 100PLUS Zero, F&N ICE MOUNTAIN Sparkling Water and OYOSHI Zero-Sugar Green Tea. We also launched Sunkist Pure in two premium variants, orange and lemon apple. In Thailand, we introduced Carnation Plus, a zero-fat sweetened condensed milk with 25 per cent reduced sugar boasting the highest milk content in its category.

By financial year-end, the number of products carrying the Healthier Choice Logo (HCL) endorsed by the Malaysian Ministry of Health or Thailand's Ministry of Public Health increased from 41 at end FY2019 to 47.

Perhaps the most exciting innovation this year was our F&N ready-to-drink (RTD) Teh Tarik. It has not been easy to get the recipe right for this perennial Malaysian favourite. After years of testing different combinations of tea leaves with condensed and evaporated milk, our F&N Teh Tarik Ori and Teh Tarik Less Sweet taste like what you would get at mamak stalls or restaurants.

Further underlining our spirit of innovation, we ventured into two new product categories. In Thailand, for the first time, we produced milk candy tablets under the brand Magnolia Milkies. In Malaysia, TEAPOT Sweetened Beverage Creamer squeeze tubes positioned as spread and topping entered the market, signalling our entry into the adjacent ready-to-eat category.

We now also have an eco-friendly packaging option for F&N ICE MOUNTAIN Drinking Water using recyclable paper that is Forest Stewardship Council (FSC) certified, while the caps are bio-based, made from sugar cane.

“We made good progress in strategic plans set out for the year 2020 despite the unfavourable circumstances. This was mainly the result of years of focus on creating greater efficiencies as part of our transformation to become a sustainable beverage leader in the region.”

STRATEGIC REPORT:

Chief Executive Officer's Statement (Cont'd.)**VALUE-ADDING FOR CONSUMERS, CUSTOMERS & BUSINESS PARTNERS**

Value creation for consumers and customers is always given top priority at F&NHB, and we continued to find new ways to do this. For consumers, we offered value trade-up deals such as 1.75L bottles of carbonated soft drinks for the price of the 1.5L versions. We also ensured a presence in every price tier, especially the more affordable ones in the current climate of growing cost-conscious consumers.

We also work closely with our customers on product and application development to meet their specific needs.

This resulted in innovative packagings such as the 1kg stand-up pouch of evaporated milk for the foodservice channel in Thailand. Carnation and TEAPOT Evaporated Milk in 1 kg pouch were highly sought after by hawker customers to gain savings, who have been especially impacted by COVID-19. By September 2020, we were selling about 25,000 cases per month compared to 5,000 cases at launch.

For the export market, we introduced 1 metric tonne packaging for sweetened condensed milk (catering specifically to F&B manufacturers); and 160g cans for evaporated milk. Along with co-branding, the differentiated pack sizes that could cater to every need has helped us expand our global customer base and drive higher growth for our Exports business.

INNOVATIVE MARKETING TO STRENGTHEN CUSTOMER & CONSUMER TIES

The new normal means a shift in marketing investment, resources and strategy to quickly adapt to consumers' new consumption behaviour. At F&N, we continued to focus on meeting customers and consumers' satisfaction by adopting innovative approaches to boost customer experience and e-commerce engagement.

In Thailand, we intensified efforts in building brand loyalty and visibility with our hawker customers through a loyalty programme that utilises innovative digital media. The team also kept our large community of hawker customers in Thailand, Cambodia and Laos updated with the latest campaigns and recipes through LINE app, which now has more than 8,000 members. This year, we have also started a web-ordering system in Thailand through F&N Dairies Thailand's website to target foodservice customers as well as online shoppers.

In Malaysia, the team went out of the way to ensure Ramadan and Hari Raya celebrations would be as festive as usual despite the different circumstances. We offered special bundles for a wide range of products on F&N Life, our new e-commerce store; and helped consumers re-create their favourite Ramadan Bazaar food and drinks at home through the 'Gerai Rasa Raya' (Taste of Raya) Campaign.

The launch of F&N RTD Teh Tarik in April 2020 was especially meaningful as this was in the middle of the Movement Control Order (MCO) when Malaysians could not frequent their favourite mamak hangouts. Unable to organise a physical event, we introduced the product on social media with an online mamak teh tarik session which gained entry into the Malaysia Book of Records for the largest participation for an event of its kind.

Undeterred by restrictions on outdoor activities, the 100PLUS team, through live **#StayFitwith100PLUS** online workouts, continued to encourage Malaysians to stay fit during the pandemic by maintaining an active lifestyle at home.

**COST COMPETITIVENESS****INVESTING FOR FUTURE**

We continuously expand our capabilities while optimising our operational and cost efficiencies as we believe in the long-term attractiveness of our market. As more of our capital expenditure (capex) projects come to fruition, the added capability to expand our product offerings, as well as the capacity to fuel export business, will improve our economies of scale. I am pleased to share that despite the inevitable delays caused by movement restrictions, we completed three significant capex projects during the year.

In February 2020, we commercialised a new milk candy tablet line to produce Magnolia Milkies at our plant in Rojana, Thailand. This was followed by the commissioning of a new solar photovoltaic (PV) system at the plant in April. The 30 million Baht solar roof, with a generating capacity of 1MWp, has reduced the plant's energy offtake from the grid, lowering both our energy cost as well as our carbon footprint.

In April, we also commercialised a new pasteurised product line at our Pulau Indah plant as part of a general shift towards in-sourcing for better management of costs, quality and supply guarantee.

Two other capex projects are still ongoing and expected to be completed in FY2021, namely:

- RM182 million integrated warehouse in Shah Alam equipped with an Automated Storage Retrieval System (ASRS) which will have a capacity to store over 50,000 pallets
- RM20 million drinking water line and warehouse in Kota Kinabalu Industrial Park (KKIP).

Additionally, we embarked on two significant projects that are also expected to be completed in FY2021:

- A 20,000-square metre Regional Distribution Centre (RDC) in Rojana to be equipped with an RM40 million ASRS.
- A renewable energy programme that entails the setting up of solar PV systems at Shah Alam, Pulau Indah and Bentong plants in Malaysia.

EXCELLENCE IN EXECUTION

ENSURING PRODUCT AVAILABILITY

Our suppliers and distributors are integral to our success as a consumer goods company. To ensure minimal disruption to our production and maintain an adequate inventory of core products during the MCO in Malaysia and the emergency decree in Thailand, we regularly engaged with our trade partners. We also conducted a supplier assessment exercise and took steps to help those unable to meet their business obligations. This included engaging the Ministry of International Trade and Industry (MITI) on behalf of suppliers for permission to resume operations during the MCO. At the same time, we extended our credit lines to several distributors to help ease their financial position.

Essentially, strong relationships with our diverse pool of suppliers in Malaysia and Thailand helped to maintain the sustainability of our supply chain.

GOING DOWN THE RIGHT ROUTES

As important as having the right products, it is equally important to offer them through the right channels via effective route-to-market strategies.

Launched in January 2020, it was fortuitous that our flagship online store, F&N Life, was up and running when the pandemic hit. Having scaled up our online operations in March to provide consumers with easier access to our products during the MCO, F&N Life now offers no less than 250 product types while achieving more than 20,000 user downloads in less than a year. More than just serving as an e-commerce platform, our vision is for F&N Life to become a lifestyle super app. At the same time, we are also working more closely with e-commerce partners in Malaysia, Thailand and overseas markets to expand the reach of our products to a wider audience.



Deepening our market penetration, in Malaysia, we embarked on two initiatives that are gaining traction. The first is a wholesaler bundling programme. The second has been to launch F&N cash sales vans to serve semi-urban and rural areas. At the same time, we have expanded our direct distribution network with a growing number of customers in Central Peninsular Malaysia and East Malaysia.

In Thailand, the team continue to strengthen our distribution network and increase coverage by 2,000 new outlets despite muted demand from general trade and foodservice channel due to the emergency decree. This is attributed to strong operational execution and successful trade programs to build brand visibility and availability.

Excellence in execution has enabled us to maintain our leadership in our core categories. In Malaysia, we are No.1 in the carbonated soft drink, tea and canned milk segments. In Thailand, we have retained our leadership in the evaporated milk and total sweetened beverage creamer (SBC) markets with Carnation heading the superior segment and TEAPOT maintaining its strong position in the mainstream segment.



STRATEGIC REPORT:

Chief Executive Officer's Statement (Cont'd.)**DIGITALISATION AT WORK**

An ongoing focus at F&NHB is to leverage digital technologies to optimise the entire value chain of our operations. Along with this digital transformation, we are ensuring that our people have the skills to adapt to and use emerging technologies to work better and smarter. We are providing relevant training, and have teams looking into the integration of artificial intelligence (AI) as well as big data into our systems. We are also bringing a greater diversity of talent on board to accelerate a new, data-driven way of working.

To encourage a digital culture at work, in January 2020, we launched the Fraserians Connect App in Malaysia. This serves as an effective communication tool enabling us to keep our employees up-to-date with the latest news and happenings in F&N. During the MCO in Malaysia, employees get frequent and timely updates on work arrangements, guidelines and memos relating to the pandemic via the app. At the same time, we ensured our people continue to receive adequate training by introducing more online modules.

SAFEGUARDING THE WELL-BEING OF OUR PEOPLE

One of our key priorities during the current pandemic is to protect our employees' well-being. To do this, we have made greater use of digital media and video conferencing to replace physical meetings and business travel. Our annual employee townhall was conducted virtually for the very first time. We adopted flexible work arrangements for office-based employees and encouraged our employees to work from home, even when this was not mandatory.

We are also ensuring that strict hygiene and standard operating procedures (SOPs) are adhered to in our workplaces. These include daily enhanced cleaning of work areas and common areas after every shift, regular special chemical sanitisation, daily temperature monitoring of employees working on site, and social distancing practices.

Recognising that some of our people may have faced financial pressures during these difficult times, we paid out our fixed bonus component earlier than usual. We deferred the monthly deductions for motorcycle loans while also providing an additional weekly allowance to frontline employees during the MCO. To help our employees cope with personal or psychological stress caused by the pandemic, we also set up an employee assistance careline.



1. 100PLUS Zero 2. F&N ICE MOUNTAIN Sparkling Water – Original, Lemon and Grapefruit 3. F&N Teh Tarik – Ori and Less Sugar 4. No Sugar OYOSHI Gold Kabusecha, No Sugar OYOSHI Gold Sencha 5. Sunkist Pure – Orange and Lemon Apple 6. TEAPOT Squeeze Tube – Plain, Gula Melaka & Pandan 7. F&N Fruit Tree Fresh Reduced Sugar Soursop with Nata De Coco

FINANCIAL PERFORMANCE

Maintaining business as usual as efficiently as possible under the circumstances, F&NHB concluded FY2020 with a resilient performance sustained by stronger performance in the first quarter and recovery in the fourth quarter, as well as a generally robust Exports performance.

Amidst the prolonged COVID-19 containment measures and subdued outdoor activities, the Group's revenue contracted minimally by 2.2 per cent, from RM4.08 billion in FY2019 to RM3.99 billion. Profit after tax (PAT), meanwhile, came in at RM410.1 million, almost mirroring the RM410.2 million achieved in FY2019 despite continuing uncertainty and commodity price pressures. This was mainly the result of concerted efforts to manage our costs.

New?



1. Carnation Plus SCM 0% Fat, 25% Reduced Sugar
2. TEAPOT Squeeze Tube – Matcha, Mango
3. Magnolia Milkies Tablet – Classic Malt, Hokkaido Milk, Strawberry Yogurt

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Against a challenging backdrop, total exports from **Malaysia and Thailand contributed RM796 million revenue** to the Group this year, a noteworthy achievement in light of the pandemic. We would have overachieved our target Group export sales of RM800 million in FY2020 under normal circumstances. ”

F&B MALAYSIA

Sustained demand for dairy products, boosted by in-home consumption, moderated the contraction in F&B Malaysia's performance this year. Further aided by fourth-quarter domestic recovery and strong exports, revenue from our Malaysian operations declined moderately by 5.7 per cent from RM2.16 billion in FY2019 to RM2.04 billion during the period under review.

Along with the lower revenue and higher input cost (mainly skimmed milk), operating profit for F&B Malaysia decreased by 10.0 per cent to RM144.9 million. Excluding the RM7.8 million gain on disposal of “TEAPOT” trademark to F&N Global Marketing Pte Limited, a direct wholly owned subsidiary of Fraser and Neave, Limited (F&NL) and effects of one-off and non-operating items in both years, F&B Malaysia operating profit declined by 16.8 per cent.

F&B THAILAND

F&B Thailand delivered a resilient full year performance attributed to successful tactical strategies as well as recovery in Indochina and export markets, which compensated the temporary contraction in general trade and foodservice channels due to the emergency decree. In FY2020, F&B Thailand posted revenue of RM1.94 billion, up by 1.8 per cent from RM1.91 billion in FY2019.

Aided by favourable RM/THB forex translation, F&B Thailand's operating profit improved 5.3 per cent (2.0 per cent in Thai Baht terms) to RM381.0 million due to prudent cost control over overheads and advertising and marketing spend.

EXPORTS

Against a challenging backdrop, total exports from Malaysia and Thailand contributed RM796 million revenue to the Group this year, a noteworthy achievement in light of the pandemic. We would have overachieved our target Group export sales of RM800 million in FY2020 under normal circumstances.

Exports from Malaysia grew by double-digit driven by more robust sales to the Middle East and Africa, and ASEAN markets. Our focus on halal markets is already bearing fruit, as evidenced by revenue from halal markets exceeding the RM100 million target.

Indochina markets (managed by F&B Thailand) also performed strongly this year with Cambodia and Laos collectively contributing over RM200 million in revenue, driven by successful expansion of distribution and reach. Today, TEAPOT is the market-leading brand in condensed milk market in both Cambodia and Laos.

Exports accounted for 20 per cent of the Group's total revenue in FY2020, up from 18 per cent in FY2019. This was aided by further expansion of our markets, which now comprise 82 countries.

In December 2019, we achieved a milestone with the incorporation of Fraser and Neave MENA DWC-LLC, our first international office, in Dubai, which will serve as a strategic base to develop opportunities in the Middle East and North Africa (MENA) regions.

STRATEGIC REPORT:

Chief Executive Officer's Statement (Cont'd.)

INCLUSIVE GROWTH

COVID-19 has reaffirmed the importance of our stakeholders to our business sustainability, placing greater urgency on managing the environmental and social risks that could affect them. It pleases me to share that, as a result of having in place an inclusive growth strategy, we were able to build on and further strengthen various initiatives that create stakeholder value.

RESPONSIBLE SUPPLY CHAIN

We are reinforcing our social and environmental stewardship by ensuring positive impacts along our supply chain. This year, we achieved three milestones in this regard:

- F&NHB became part of the world's first fully sustainable end-to-end sugar supply chain through the Buyers Supporting VIVE Programme.
- Having completed our target of purchasing Roundtable on Sustainable Palm Oil (RSPO) credits for all our palm oil requirements, we now target to use only RSPO-certified palm oil by 2025.
- We have become a founding member of a coalition of manufacturers that seeks to promote a more sustainable future through the recycling of post-consumption packaging waste.

REDUCING OUR CARBON FOOTPRINT

We recognise the critical need to mitigate climate change and fully support the Government's target of reducing the country's greenhouse gas (GHG) intensity. Towards this end, we are installing 10 MWp of solar energy capacity at our plants in Malaysia. Once completed in 2021, this will generate clean energy equivalent to the electrical consumption of 3,700 typical households in the country. Come 2022, we will achieve at least 20 per cent clean energy requirements for Malaysia.

Our capex projects further reduce our carbon footprint. The installation of the ASRS in our warehouses in both Malaysia and Thailand means less shunting between third-party warehouses and our factories; and minimises use of forklifts, thus cutting our fuel usage and greenhouse gas emission.



DELIVERING VALUE TO DRIVE SOCIAL PROGRESS

The sheer size and reach of our operations lend us the potential to create positive social and economic value. Leveraging on our position, we strive to empower various segments of the community.

For example, we partner with the Halal Industry Development Corporation (HDC) to help small and medium enterprises (SMEs) qualify as halal vendors. Our contributions to the halal ecosystem in Malaysia were recognised this year through the Halal Food and Beverage Excellence Award during the World Halal Conference 2020. F&N Dairies (Thailand) Limited, meanwhile, was named Thailand Best Halal Company of the Year 2020 by the Central Islamic Council of Thailand (CICOT) in Bangkok.

In Thailand, building on a long-established relationship with dairy cooperatives, we established a three-year Farming Excellence programme in 2019 which is helping 2,200 dairy farms enhance the quantity and quality of their milk while also reducing energy consumption and waste. This will translate into higher productivity and income for the farmers.

Meanwhile, maintaining our support for the marginalised, we directed our efforts this year towards helping them overcome the difficulties brought about by the pandemic. Special focus was given to frontliners, whom we kept energised as they helped keep the nation safe. Since the viral outbreak in Malaysia, F&NHB has distributed more than one million products in both Peninsular and East Malaysia.

More details about how we deliver inclusive growth while managing our impact can be found in the Sustainability Statement in this report.



OUTLOOK AND GOING FORWARD

Given the ongoing COVID-19 pandemic, as well as local and global uncertainties, the Group is cautious regarding the immediate future. At the same time, the pandemic has provided us an opportunity for a reset and to 'reimagine' our business strategies to fuel growth and innovation.

As mentioned in the previous annual report, we are looking to diversify into dairy farming. Although the proposed acquisition of land in Chuping, Perlis did not pan out, we still believe there is huge potential for growth in the liquid milk sector. We will continue to evaluate and seize opportunities to realise our ambition. While delaying some of our longer-term strategic initiatives, the pandemic has given us time to reassess our objectives and better prepare us to make quicker decisions when the time comes.

In terms of Exports, we aim to set up more international offices, following the Dubai model. The path towards building another significant pillar i.e. Exports, will continue and be intensified.

To summarise, we can expect another challenging year. However, we have identified many opportunities that present attractive long-term prospects and will be channelling our resources towards these. Our journey forward will be driven by a new five-year roadmap that builds on the momentum of Vision 2020. Called Passion 2025, it will see us focus on further developing our brands, reach and professionalism. Our goal is to be more significant in significant markets. And I believe we have what it takes to make this happen.



Maintaining business as usual as efficiently as possible while safeguarding the well-being of our employees and the community remains a top priority. **We will continue to focus on process improvements and digitalisation, and relentlessly pursue opportunities to build a stronger, more sustainable business for the future through continued investments in capex and our brands.**



ACKNOWLEDGEMENTS

To conclude, I would like to thank all our stakeholders for helping to maintain F&NHB on our ongoing journey. Each of our consumers, customers, suppliers, distributors, investors, shareholders, regulators and the community partners play an integral role in our success. We fully appreciate your contributions and are committed to reciprocating by creating value for you.

Most of all, I would like to thank everyone at F&NHB for your passion and dedication to the Group. I would especially like to extend my gratitude to all employees who have risen to the challenge of keeping our business going during these turbulent times. Your commitment to our vision and values is inspiring and lends every reason for us to smile at the prospects of a brighter future to come.

Lim Yew Hoe

Chief Executive Officer

STRATEGIC REPORT:

Market Review

Both our key markets – Malaysia and Thailand – have been significantly impacted by the global COVID-19 pandemic, which has severely curtailed economic activity as well as trade.

In Malaysia, the Ministry of Finance in its Economic Report published in November 2020 has predicted a contraction in the economy of 4.5 per cent for the year. This is following weak performance in the first half of the year, and particularly the second quarter, post MCO, when the economy shrunk by a record low of -17.1 per cent. The anticipated pick-up in the second half of the year is due to the implementation of various stimulus packages comprising fiscal and non-fiscal measures totalling RM305 billion, which are expected to lead to an upturn in production and trade.¹

Similarly, in Thailand, the economy contracted drastically in the second quarter, improving in the third quarter along with an easing of lockdown measures. Recovery has not been complete, however, as the country is heavily reliant on tourism, which continues to be affected by travel restrictions. At the same time, although companies signalled an improvement in manufacturing activity, sales continue to be impeded by a weak trading environment. Consumer sentiment dipped significantly in March and has been steadily rising since April but still remains much lower than it was in January 2020.²

1 <https://www.theedgemarkets.com/article/malaysia-economy-seen-grow-6575-2021-after-45-contraction-2020>

2 Trading economics, Thailand Consumer Confidence, <https://tradingeconomics.com/thailand/consumer-confidence#:~:text=Looking%20forward%2C%20we%20estimate%20Consumer,according%20to%20our%20econometric%20models>.

3 <https://www.globaldata.com/covid-19-accelerates-e-commerce-growth-malaysia-says-globaldata/>

KEY TRENDS AND OUR RESPONSES

CONSUMER BEHAVIOUR



Social distancing measures and other restrictions imposed due to COVID-19 have meant that people are not dining out as much as before. This has seen an increase in spend on groceries, including food for home consumption. At the same time, loss of jobs together with general economic uncertainties have made people even more cautious than ever about their spending. Where possible, they seek bargains and value-for-money deals when making purchases. Additionally, there is a discernible preference for convenience, ie to shop in outlets where consumers are able to get everything they need for home in one go, such as supermarkets, and proximity due to movement limitations that gave rise to growing popularity of convenience stores near homes.

HEALTH CONSCIOUSNESS



COVID-19 has served to create a reset in lifestyles, with a real shift towards healthier living to boost immunity. Whilst before people were aware of the need to focus on well-being, today they are acting on such knowledge to safeguard themselves and their family. They are exercising more, taking more wellness supplements, and paying more attention to what they eat and drink, especially as they are now cooking and eating more at home. When making purchase decisions, they are increasingly opting for foods and beverages that are nutritious. There is therefore increased consumption of healthier choices such as fresh juices and low-sugar, or no-sugar, drinks.

OUR RESPONSE

- To meet greater demand for value buys, we introduced a number of promotions such as product bundling and value trade ups. For example, we have started offering 1.75L bottles of carbonated soft drinks for the price of the original 1.5L versions in Malaysia. In Thailand, we introduced Carnation and TEAPOT Evaporated Milk in 1 kg pouch value pack that are targeted at hawker customers.
- In line with the fact that people are cooking more, we focused our marketing efforts on in-home consumption, and especially our dairy products as these have multiple applications in food preparation.
- As for meeting demand in the right outlet, our sales teams worked closely with customers such as supermarket/hypermarket chains to ensure they always had enough stock of our products. We also penetrated deeper into previously unserved areas throughout Malaysia with van sales to provide easier access for our consumers.
- We have continued to focus our product innovation on developing healthier choices for consumers. Six new healthier products were launched this year, increasing the total products that carry the Healthier Choice Logo (HCL) issued by the relevant national public health authorities in Malaysia and Thailand to 47.
- Our conscious effort towards lowering sugar content has successfully reduced our total sugar index by half today compared to 10 years ago. Today, more than 90 per cent of our ready-to-drink products sold in Malaysia contain less than 5g of sugar per 100ml.
- We now offer a healthier option in every product category we are in except for energy drink. F&N takes the position that reducing the sugar level of our energy drinks drastically would result in a loss of its functionality and purpose to our consumers. Hence, we did not proceed to launch a healthier choice for 'Energy' category.

DIGITAL REVOLUTION



The last few years have seen a shift in demand from brick and mortar retail to e-commerce, and the pandemic has accelerated this change. Movement restrictions imposed by governments, together with individuals' own preference to stay away from crowded retail outlets, have led to a significant spike in e-commerce. According to GlobalData's E-Commerce Analytics, Malaysia's e-commerce market is expected to grow by 24.7 per cent in 2020 and to exceed RM51 billion by 2024,³ increasing at a compounded annual growth rate of 14.3 per cent between 2020 and 2024. At the same time, there is a greater need for organisations to adopt digital technologies to enable employees to work remotely, as well as to enhance efficiencies.

ENVIRONMENTAL SUSTAINABILITY



Among the ongoing global concern regarding the sustainability of our natural environment are climate change and waste management. Experts predict dire consequences should the Earth's temperature increase by more than 2°C from pre-industrial levels. Improved waste management, meanwhile, is critical due to limitations of landfills as well as the increasing volume of plastic that is choking waterways while also threatening the marine ecosystem. Many governments have committed to varying levels of carbon emissions reduction and making concerted efforts to reduce and eventually eliminate single-use plastics while promoting greener technologies. Meanwhile, consumers themselves actively seek brands that contribute to a greener environment.



- F&N Life, our flagship online store was scaled up rapidly in March to meet increasing online demand post-MCO. Today, we offer 250 product types via the virtual store. We helped our distributors to set up e-selling platforms and organise e-Ramadan Bazaars to boost sales during the Ramadan period. We are also collaborating with T-mall, one of the biggest e-commerce sites in China and other e-commerce sites in Malaysia to reach out to more online consumers.
- In addition, we are leveraging digital tools and our online presence to enhance our consumer/customer engagement. F&N Teh Tarik Ori was successfully launched during the MCO period with a virtual mamak session. Meanwhile, in Thailand, we have a Line group chat through which we engage with some 8,000 hawkers.
- In terms of work, we are creating a digital culture in which there will be greater use of AI and big data to create efficiencies in everything we do. The year also saw all employees in Malaysia connected through the 'Fraserian Connect' mobile app.



- We achieved a milestone in 2020 by installing our first solar panel roof, at our plant in Rojana, Thailand. We further committed RM30 million investment into energy conservation which includes the 10MWp solar roof projects at Shah Alam, Pulau Indah and Bentong plants in Malaysia. We aim to replace at least 20 per cent of our total energy requirement in Malaysia with clean energy by 2022.
- The Group's capex investment over the last five years are also aimed at achieving our environmental goals. For example, F&NHB's new warehouse at Shah Alam will significantly reduce shunting and double handling between our plants and the Automated Storage and Retrieval System (ASRS) will significantly reduced the use of forklifts, thus cutting our fuel usage and greenhouse gas emission.
- In terms of waste management, F&N school recycling programme has so far saved more than 4.76 million kilogrammes of recyclables from going into landfill. This year, we have also become a founding member of an industry coalition that seeks to promote the recycling of post-consumption packaging waste in Malaysia.

STRATEGIC REPORT:

Value Creation *Business Model*

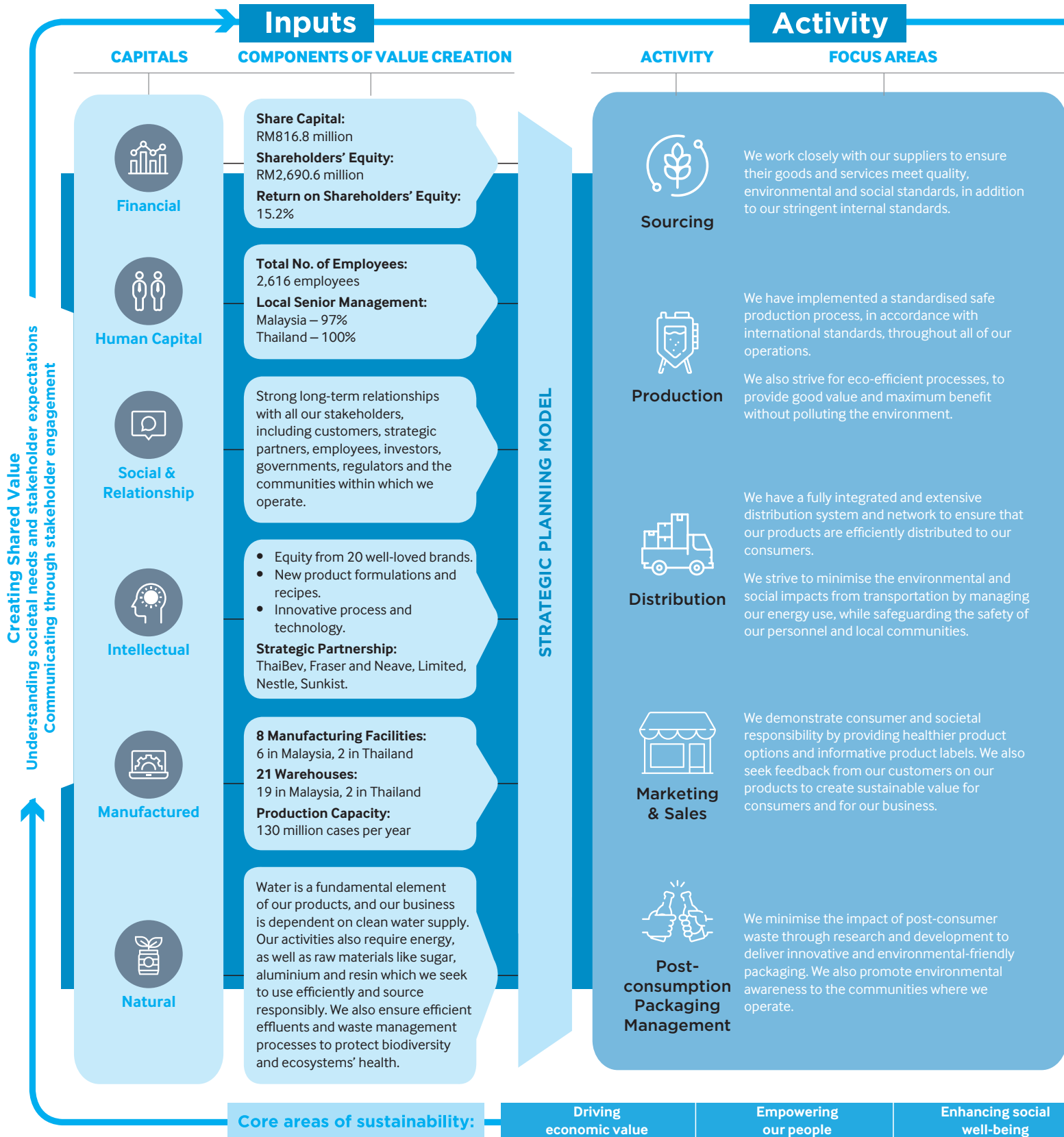
Our business is built in a profitable, responsible and sustainable manner. This means ensuring that our overall strategy reflects awareness of the interdependencies and trade-offs between different types of capital, and how they support our ability to create value for the short, medium and long-term.

Vision

- To become the **Leading Total Beverage Company** in Malaysia and the **Region**

Mission

- To **provide superior returns** to our shareholders, **excellent value** for our customers and a **rewarding career** for our employees



Core Values

- Collaboration
- Creating Values
- Caring for Stakeholders

Operating Environment / Market Drivers / Trends

- Consumer Behaviour
- Digital Revolution
- Health Consciousness
- Environmental Sustainability

Competitive Advantage

- Better products
- Greater efficiencies
- Strengthened relationships with key stakeholders

Our Businesses

Food & Beverages Malaysia

Food & Beverages Thailand

Property & Others

Outputs

SUSTAINABILITY GOALS



F&N GROUP 2020 SUSTAINABILITY TARGETS

1. Reduce solid waste intensity by 5% from 2017 by 2020
2. Reduce energy intensity by 5% from 2017 by 2020
3. Reduce GHG emission intensity by 5% from 2017 by 2020
4. Purchase 100% Roundtable on Sustainable Palm Oil (RSPO) credits for palm oil usage by 2020
5. Reduce water intensity at our plants by 5% from 2017 by 2020
6. Offer at least one healthier choice option in all our product categories by 2020
7. Provide outreach and engagement programmes across Malaysia and Thailand by exploring and implementing appropriate outreach programmes to address community needs
8. Invest in product and process innovation to increase our product range, and improve efficiency and productivity
9. Provide an average of at least 12 training hours per employee per year by 2020
10. Have zero Lost Time Injury Frequency Rate by 2020

DELIVERING FINANCIAL OUTCOMES FOR F&N



Revenue:
RM3,988.5
MILLION



Operating Profit:
RM515.2
MILLION



Profit before Tax:
RM522.9
MILLION



Profit for the Year:
RM410.1
MILLION

Shareholders & Financial Investors

- Managing our resources effectively enables us to maximise profits which benefit shareholders through sustainable shareholder returns and dividend payouts
- Maintaining a strong balance sheet to take advantage of opportunities as they arise and protect against unforeseen risks
- Dividend Payout Ratio: 53.6%
- Dividend per Share: 60.0 sen*
- Total Dividend Payout: RM220.1 million
- Basic Earnings per Share: 111.9 sen

* Included proposed final dividend of 33.0 sen, which will only be recognised in the financial statements upon shareholders' approval.

Employees

- Employed 204 new employees in FY2020
- Career advancement and ability to reach individual potential
- Paid RM297.40 million in total employee remuneration and benefits in FY2020
- Female representation in our workforce:
 - 31% of total employees
 - 45% of total managerial positions
- Boosted earning potential of employees with training and development
- Awarded RM228,225 to 99 children of employees in 2020 under F&N Chairman's Award. Since 2003, F&NHB has disbursed close to RM4 million to >2,000 children

Distributors & Trade Customers

- Partnership with >220,000 retailers and outlets in Malaysia, Thailand, Cambodia and Laos
- Source of income and job creation at our distributors
- Supported the livelihood of 40,000 hawkers in Thailand, Laos and Cambodia

Consumers

- Launched various innovative solutions to address the needs of our consumers in 82 countries worldwide
- Fulfilled consumers' demand for safe and quality products
- Provide accessibility to our products through an extensive distribution network coverage
- 10 new products launched in FY2020
- 47 products with 'Healthier Choice Logo' in FY2020

Communities

- Social investment in FY2020: >RM400,000
- Nurtured local sports champions
- Advocated active lifestyles via sports events and activities
- Partnered with local councils to develop collaterals to increase awareness on COVID-19 prevention for 430 schools across Malaysia
- Supported over 200 beneficiaries from vulnerable communities

Regulators

- Complied with regulation to mitigate against systemic risk
- Adhered to sustainable practices to protect our stakeholders
- Contributed RM112.8 million in tax for FY2020
- Active industry collaboration and knowledge exchange with government agencies and statutory bodies

Suppliers

- Worked with local suppliers (94% of our suppliers are local)
- Total Supplier Spend: RM3.21 billion
- 75% local purchase value

Creating Shared Value
Understanding societal needs and stakeholder expectations
Communicating through stakeholder engagement

Eco-efficiency

Responsible
supply chain





Safety and
well-being

STRATEGIC REPORT:

Stakeholder Engagement

F&NHB's stakeholders include any individual or group who are impacted by or interested in our activities. We strive to build and maintain strong relationships based on trust and respect with all stakeholders, and utilise various platforms where they can voice their opinions and suggestions, as shown in the table below. Information received via these channels is used in our planning and strategy for sustainable value creation.

	Engagement Channels and Frequency of Engagements	Key Concerns	How F&NHB creates value for this stakeholder
 SHAREHOLDERS AND INVESTORS	<ul style="list-style-type: none"> Annual General Meetings (AGMs) Regular face-to-face meetings & conference calls Office/plant visits, as and when required Investor Days/briefing 	<ul style="list-style-type: none"> Transparent and accurate disclosure Return on investment Sustainable financial and operational performance 	<ul style="list-style-type: none"> Managing our resources effectively enables us to maximise profits which benefit shareholders through sustainable shareholder returns and dividend payouts Maintaining a strong balance sheet to take advantage of opportunities as they arise and protect against unforeseen risks Dividend Payout Ratio: 53.6 per cent Dividend per Share: 60.0 sen* Total Dividend Payout: RM220.1 million Basic Earnings per Share: 111.9 sen <p><i>* Included proposed final dividend of 33.0 sen, which will only be recognised in the financial statements upon shareholders' approval</i></p>
 EMPLOYEES	<ul style="list-style-type: none"> Biennial employee engagement survey Annual CEO town hall/roadshow Annual dinner Festive gatherings Sports tournaments F&N Chairman's Award iConnect (intranet), F&N BITES (news update), monthly email news highlights, digital TV, Fraserians Connect (mobile app) F&N Voice WhatsApp channel Dialogues with unions 	<ul style="list-style-type: none"> Compensation and benefits Competency development Senior leadership Learning & development Rewards & recognition Safety at work COVID-19 related safety precautions and employee wellness 	<ul style="list-style-type: none"> Employing 204 new employees in FY2020 Career advancement and ability to reach individual potential Paying RM297.4 million in total employee remuneration and benefits in FY2020 Female representation in our workforce: 31 per cent of total employees – 45 per cent of total managerial positions Boosting earning potential of employees with training and development Awarding RM228,225 to 99 children of employees in 2020 under F&N Chairman's Award. Since 2003, F&NHB has disbursed close to RM4 million to >2,000 children Virtual wellness programmes Strict hygiene practice and sanitary environment in the workplace
 DISTRIBUTORS AND TRADE CUSTOMERS	<ul style="list-style-type: none"> Annual customer meetings Annual factory visits Annual business planning Regular business development activities Joint supply chain meetings Quarterly business reviews Customer appreciation events 	<ul style="list-style-type: none"> Latest consumer & shopper trends Product innovation Customer relationship management Shopper loyalty programmes Improving customer service level Business practices & ethics Efficient delivery systems COVID-19 related payment challenges 	<ul style="list-style-type: none"> Partnership with over 220,000 retailers and outlets in Malaysia, Thailand, Cambodia and Laos Source of income and job creation at our distributors Supporting the livelihood of 40,000 hawkers in Thailand, Laos and Cambodia Case-to-case flexible payment method

	Engagement Channels and Frequency of Engagements	Key Concerns	How F&NHB creates value for this stakeholder
 CONSUMERS	<ul style="list-style-type: none"> • Marketing & sales promotions • Brand communication through advertising • On-going social media interactions • On-ground events & activities • Dedicated consumer hotline 	<ul style="list-style-type: none"> • Product quality & safety • Consumer health & safety • Fair & reasonable product pricing • Social & community engagement • Environmental-friendly packaging 	<ul style="list-style-type: none"> • Launching innovative solutions to address the needs of our consumers in 82 countries worldwide • Fulfilling consumers' demand for safe and quality products • Providing accessible products through an extensive distribution network coverage • 10 new products launched in FY2020 • 47 products with 'Healthier Choice Logo' in FY2020
 COMMUNITIES	<ul style="list-style-type: none"> • Collaborations & partnerships • Meetings • Outreach programmes • Meetings/dialogues with community representatives • Leadership programmes • Sponsorships to more than 10 communities 	<ul style="list-style-type: none"> • Social & environmental responsibility • Job opportunities for locals • Promotion of good health & quality of life • Skill development in sports & leadership • Stimulating local economies 	<ul style="list-style-type: none"> • Social investment in FY2020: > RM400,000 • Nurturing local sports champions • Advocating active lifestyles via sports events and activities • Partnering with local councils to develop collaterals to increase awareness on COVID-19 prevention for 430 schools across Malaysia • Supporting over 200 beneficiaries from vulnerable communities
 REGULATORS	<ul style="list-style-type: none"> • Active collaborations e.g. Federation of Malaysian Manufacturers • Meetings with government agencies and statutory bodies • Collaboration & partnerships with local councils 	<ul style="list-style-type: none"> • Good governance • Fair labour practices • Safety at work • Compliance with laws & regulations • Water & waste management • Environmental-friendly labelling & packaging • Greenhouse gas emission (GHG) • Recycling awareness • COVID-19 standard operating procedures 	<ul style="list-style-type: none"> • Compliance with regulation to mitigate against systemic risk • Adhering to sustainable practices to protect our stakeholders • Contributing RM112.8 million in tax for FY2020 • Active industry collaboration and knowledge exchange with government agencies and statutory bodies • Adhering to COVID-19 guidelines and social distancing measures
 SUPPLIERS	<ul style="list-style-type: none"> • Supplier meetings • Annual audits • Tender Management System • Annual supplier assessment review and audit 	<ul style="list-style-type: none"> • Fair & robust procurement system • Support of local businesses • Social & environmental responsibility • Ethics - anti-bribery & corruption 	<ul style="list-style-type: none"> • Working with local suppliers (94 per cent of our suppliers are local) • Total Supplier Spend: RM3.21 billion • 75 per cent local purchase value

STRATEGIC REPORT:

Material Matters

OUR MATERIAL ISSUES

We undertook our first materiality assessment in 2017 to evaluate our most important sustainability issues. This assessment was based on three steps: Identification, Prioritisation and Validation.



STEP 1: IDENTIFICATION

We first conducted a comparative analysis of sustainability issues identified by global initiatives (such as the United Nation Sustainable Development Goals) and best practices of peer companies in the industry. These issues were then discussed within the Group Sustainability Development Committee (SDC) to identify the ones of most relevance of F&N. Our employees were surveyed in order to make sure that our identification process was accurate and a list of key issues was finalised.



STEP 2: PRIORITISATION

To prioritise our sustainability issues, we engaged department heads, the C-suite and board directors in a materiality workshop. The workshop involved an in-depth discussion of each identified sustainability issue, including the possibility of impacts to our business and stakeholders. Each issue was then prioritised on a scale of 'moderate' to 'high'.



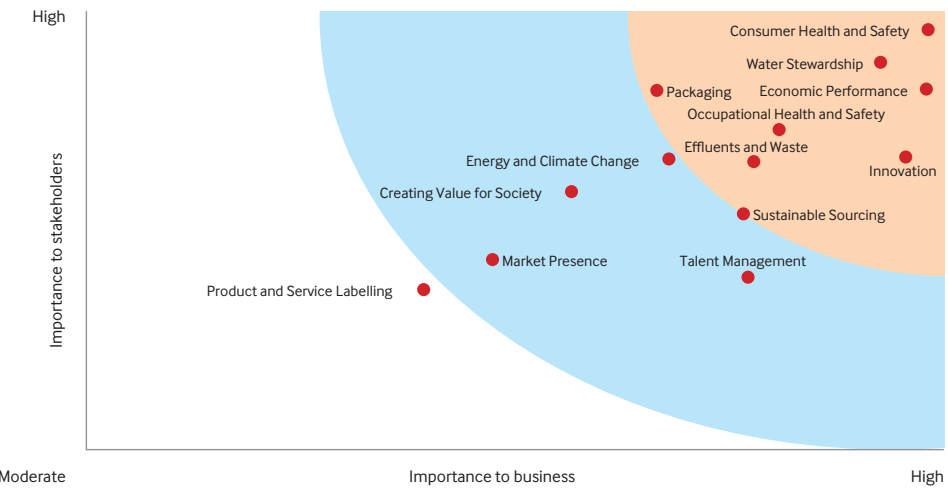
STEP 3: VALIDATION

After the preliminary materiality matrix was developed, we proceeded to validate the matrix through engagements with the F&NHB Sustainability Management Committee and the Board.

FY2020 MATERIALITY MATRIX

Following the initial materiality exercise in 2017, we have continued to review the materiality issues every year.

Our most significant material topic 'Consumer Health and Safety' is extremely relevant this year amidst the COVID-19 pandemic as communities are becoming more discerning of their health and hygiene. 'Economic Performance' is vital as we continue to ensure adequate supply to the market as well as the contribution to our frontliners and people in need whilst maintaining a resilient financial performance. The 'Occupational Health and Safety' issue is also increasingly important in light of the pandemic.



The Group selects high priority material issues to establish medium-term performance sustainability goals to be achieved by 2020. Here are the high priority and key material issues that will be detailed in the following pages:

- 1

Innovation


- 2

Sustainable Sourcing


- 3

Consumer Health & Safety


- 4

Occupational Health & Safety


- 5

Talent Management


- 6

Environmental Stewardship


- 7

Creating Value for Society



1

INNOVATION

**WHY IT IS IMPORTANT TO US**

Innovation is critical to maintaining leadership and competitive advantage in a rapidly evolving market. We need to stay relevant to customers' and consumers' needs and demands that have evolved towards healthier lifestyles and convenience as well as growing concerns on social and environmental issues.

RISKS

- High investment costs in R&D and equipment with uncertain commercial returns.
- Balancing between the risk of non-acceptance by consumers and the risk of being overtaken by competitors.
- Replication and improvement by competitors riding on products, processes and packaging of innovator.

OPPORTUNITIES

- Innovative product that resonates with customers and consumers generates higher sales and profit.
- Adoption of emerging and disruptive technologies increases competitive edge.
- Improved cost and operational efficiency enhances economies of scale and environmental performance.

OUR RESPONSE**Product Innovation**

- Continuous products development to meet the changing needs and preferences of consumers and to deliver high-quality products, with the right nutritional values and taste.
- Collaborate with research institutes to access cutting-edge research and scientific studies.
- Offer innovative packaging formats to reduce environmental footprint, as well as appeal to consumers' demand for convenience and flexibility without compromising product quality and integrity.

Process Innovation

- Investing in more advanced equipment and technology to expand innovation capability.
- Adopt technical and scientific advances to capture value and efficiency from our supply chain.
- Inculcate employee-driven innovation initiatives to enhance productivity, quality and cost savings.



> Refer to the 'Sustainability Statement' section on pages 133 to 139 in this AR, or read more in the F&NHB Sustainability Report 2020.

STRATEGIC REPORT:

Material Matters (Cont'd.)

2

SUSTAINABLE SOURCING

**WHY IT IS IMPORTANT TO US**

Our business sustainability hinges on the inter-dependence relationship between our suppliers and us to create long lasting value. Therefore, it is imperative to ensure all our vendors and suppliers along our supply chain abide by the same principles of sustainability that we do.

RISKS

- Unethical practice within the supply chain leads to regulatory violations, monetary fines and reputational risk.
- Price fluctuation as a result of global economic performance and foreign exchange exposure.
- Ability of local suppliers to deliver and meet growing demands.

OPPORTUNITIES

- Establish robust policies and systems to ensure competitive pricing and safeguard vendors from corruption and malpractice.
- Supply chain stewardship helps elevate vendors' productivity and performance in sustainability practices and compliance with food safety standards.
- Create local employment and support local economy by prioritising local suppliers.

OUR RESPONSE

Promote sustainable and responsible sourcing via risks management, conscientious supplier selection and local sourcing.

- Established a transparent and fair procurement management system that protects the rights of our vendors.
- Yearly audits to assess quality assurance, food safety and SHE standards, and environmental performance of critical suppliers.
- Pre-qualifying new vendor checklist and Supplier Code of Practice cover all environmental and social impacts.
- Commit to using Certified Sustainable Palm Oil (CSPO) in our products by 2025.
- Source materials that are certified by eco-credentials, such as Forest Stewardship Council (FSC).
- Support local economy and minimise environmental impact from transportation by engaging local suppliers.



> Refer to the 'Sustainability Statement' section on pages 133 to 139 in this AR, or read more in the F&NHB Sustainability Report 2020.

3 CONSUMER HEALTH AND SAFETY



WHY IT IS IMPORTANT TO US

Our success is built on mutual trust with our consumers. We consistently maintain the highest quality and safety standards so that customers have full confidence when purchasing and consuming our products.

RISKS

- Failure to address the shift in consumer trends effectively will result in loss of sales.
- Reputational risk and customer claims arising from break of supply chain or compromised packaging outside of factory.
- Regulatory changes that may affect product recipe and/or packaging.

OPPORTUNITIES

- Transforming product portfolio towards healthier options that contribute to consumers' well-being.
- Higher sales and revenue from product range expansion and portfolio diversity.
- Improvement in product quality results in increased consumer trust and strong credibility in exports market.

OUR RESPONSE

Our products comply with relevant standards across their entire life cycle. Proper governance system supported by Group's various policies and frameworks are put in place to ensure that controls are working as intended.

i. Healthier Options

- Continuously develop new healthier options and reformulating existing product to cater to consumer's demand.
- Reduced the sugar index of our total beverage portfolio.
- Support Government's Healthier Choice Logo certification in Malaysia and Thailand.

ii. Halal Assurance

- All products are halal certified by the Department of Islamic Development Malaysia, and other relevant authorised certification bodies.
- Established F&N Group Halal Council at strategic level and an internal Halal Committee in each of our manufacturing plants to ensure halal compliance in our supply chain.

iii. Quality & Safety

- Adherence to health and safety regulations in the markets where we operate and international food safety standard like Food Safety Management System ISO 22000, Quality Management System ISO 9001, Accredited Laboratory, Good Manufacturing Practice, and Hazard Analysis and Critical Control Points (HACCP).

iv. Nutritional goodness

- Our Nutrition Charter guides all aspects of our product development, marketing and initiatives to advocate healthy lifestyles.



> Refer to the 'Sustainability Statement' section on pages 133 to 139 in this AR, or read more in the F&NHB Sustainability Report 2020.

STRATEGIC REPORT:

Material Matters (Cont'd.)

4

OCCUPATIONAL HEALTH AND SAFETY

**WHY IT IS IMPORTANT TO US**

A safe and healthy working environment is conducive to a productive workforce and achieving operational and performance excellence, which leads to the growth of the organisation.

RISKS

- Productivity loss from injuries, occupational diseases, lost days and fatalities.
- Workplace safety issue may impact business continuity and the company's license to operate.
- Potential financial and reputational implications.

OPPORTUNITIES

- A productive workforce helps the organisation optimise operational performance.
- Higher productivity with less absentee and lost day rate.
- Positive employer branding.

OUR RESPONSE

Comply with relevant laws and regulations in the country where we operate, supported by appropriate Safety, Health and Environmental Management policies and programmes to safeguard the health and safety of our people at all times.

i. Creating a Safety Culture

- Established safety, health, and environment (SHE) systems and monitoring processes across our operations.
- International standards certification including ISO 14001 and ISO 45001.
- Regular safety training and awareness programmes.
- Trained Company Emergency Response Teams (CERT) to mobilise and ensure the safety of our employees.
- Safety Committees oversee safety systems and programmes to ensure their effectiveness.

ii. Healthy Workforce

- Trained Health Risk Assessment Committee to review areas where employees may be exposed to health risks, including incentivising healthy habits.
- Annual health screening.
- Promote physical activities and employee wellness programmes.



> Refer to the 'Sustainability Statement' section on pages 133 to 139 in this AR, or read more in the F&NHB Sustainability Report 2020.

5 TALENT MANAGEMENT



WHY IT IS IMPORTANT TO US

People are vital assets as they help determine how well we perform, executing our strategies into action. Hence, our talent pool must be nurtured and upskilled to keep up with the evolving industry.

RISKS

- The challenge to attract and retain the right talent.
- Adapting to the rapid skill set requirement changes of the evolving market.
- Demotivated employees result in loss of talent to competitors.

OPPORTUNITIES

- Robust employee compensation and recognition systems increase talent retention and acquisition to maintain our competitive edge.
- Effective training and upskilling programmes contribute to a high-performance culture and sustainable organisations.
- Provide job opportunities to the local community where we operate.

OUR RESPONSE

We strive to recruit the best talent and create a stimulating work environment, where talent is nurtured, and employees are engaged and empowered to reach their highest potential. We contribute to the economic well-being of employees through a fair and competitive remuneration package.

Our Talent Management strategy is guided by:

- Human Capital Roadmap to 2020.
- Seven Modules for Strategic Human Capital Transformation.
 - Clear structure and roles
 - Market-oriented compensation and benefits
 - Recognition-based performance management
 - Holistic high performer retention and development
 - Proactive succession and workforce planning
 - Engaging corporate culture
 - Strategic talent acquisition and onboarding



> Refer to the 'Sustainability Statement' section on pages 133 to 139 in this AR, or read more in the F&NHB Sustainability Report 2020.

STRATEGIC REPORT:

Material Matters (Cont'd.)

6 ENVIRONMENTAL STEWARDSHIP



WHY IT IS IMPORTANT TO US

Water management practices are fundamental for business growth, especially in beverage manufacturing. As a large producer, it is also critical to ensure that our operations do not negatively impact the environment or the communities.

RISKS

- Extreme weather events due to climate change expose our assets and operations to costly damages.
- Risk of losing license to operate due to non-compliance to applicable environmental legislations and regulations.
- Failure to meet stakeholders' expectation in managing the impact of our operations to our planet, particularly relating to climate change, packaging and waste.

OPPORTUNITIES

- Reducing water, energy and material consumption also translate to lower cost.
- Good environmental stewardship uplifts the organisation's reputation and consumer's preference.
- Inculcate sustainable practices and values in employees and communities through the adoption and engagement of the 3Rs: Reduce, Reuse and Recycle.

OUR RESPONSE

We implement environmentally sustainable business practices and guided by the principles in our Environmental, Safety & Health Policy.

i. Water Stewardship

We seek to use water efficiently across the value chain and employ water resources risk management to ensure sufficient water for our production purposes.

ii. Effluents and Waste

We comply with international and national standards in effluents and waste management. These include actions to minimise waste in the production process and post consumption.

iii. Energy and Climate Change

We curb our contribution to climate change by managing our energy consumption and GHG emissions in our manufacturing processes and supply chain. This includes creating greater energy efficiencies in our operations and using as much renewable energy as possible.



> Refer to the 'Sustainability Statement' section on pages 133 to 139 in this AR, or read more in the F&NHB Sustainability Report 2020.

7

CREATING VALUE FOR SOCIETY

**WHY IT IS IMPORTANT TO US**

Our consumers and employees come from all segments of society. Sustainable business development occurs when our communities develop alongside us.

RISKS

- Failure to balance social, economic and environmental needs will bring financial implications.
- Lack of community programmes and initiatives impacts our reputation as a corporate citizen and affects employee morale.

OPPORTUNITIES

- Help to bridge the socio-economic divide by addressing inequality of opportunity.
- Support Government's nation building agenda by promoting diversity and national unity.
- Working with communities strengthens our relationships, our credibility and presence.

OUR RESPONSE

We strive to create positive impacts on local communities through social development, economic and environmental initiatives.

We undertake a number of long and short-term programmes that serve to create greater social equity across Malaysia and Thailand by implementing appropriate programmes to address community needs and concerns in four thematic areas:

- Strengthening Vulnerable Groups
- Promoting Environmental Consciousness
- Promoting Active Lifestyles
- Spreading Festive Cheer

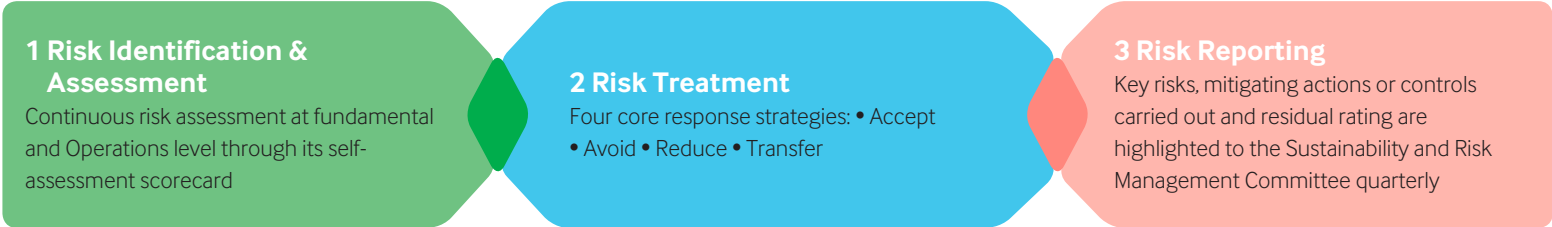


> Refer to the 'Sustainability Statement' section on pages 133 to 139 in this AR, or read more in the F&NHB Sustainability Report 2020.







STRATEGIC REPORT:

Principal / Key Risks & Mitigation

SNAPSHOT OF THE ENTERPRISE RISK MANAGEMENT PROCESS FLOW



ADDRESSING OUR RISKS & OPPORTUNITIES

COMMODITIES AND MATERIAL PRICES		
<div>RISK</div> <p>Commodities and material prices are influenced by the global & local supply and demand, weather conditions as well as regulatory changes imposed by the government. As such, any significant increase in prices of commodities and materials could materially affect the cost of our products.</p>	<div>MITIGATION ACTIONS</div> <ul style="list-style-type: none">Commodities and materials price risk is managed through forward purchase of key commodities, active monitoring of commodities price trends, and vigilant sales forecasting and production planning.In addition, we also source from multiple suppliers and origin of commodities/materials as listed in our approved vendors list to enable us to respond ably in the event of shortage in supply and/or increase in price.We also hedge our purchases using our enlarged and collective purchasing capability.	<div>LINK TO MATERIAL ISSUES</div> <div></div>
FOREIGN CURRENCY EXCHANGE EXPOSURE		
<div>RISK</div> <p>In times of foreign currency market volatility, the Group is exposed to the risk of fluctuations in foreign exchange rates against the local currency due to:</p> <ul style="list-style-type: none">Importation of materials for production;Exports of goods are traded in foreign currency; andOverseas operations are valued in foreign currencies.	<div>MITIGATION ACTIONS</div> <ul style="list-style-type: none">The Group is guided by the Group Treasury Policy which outlines the policy in hedging the identified and committed foreign exchange exposure.Typically, at least 60 per cent of our forex requirements are hedged to manage fluctuating prices of commodities as well as forex movements.Exports serve as additional natural hedge to cushion the impact of depreciating local currencies.	<div>LINK TO MATERIAL ISSUES</div> <div></div>
EXPOSURE TO FOOD SAFETY RISK		
<div>RISK</div> <p>As a player in the food & beverage industry, the Group is exposed to the risks associated with product quality and standards as product safety and quality are of paramount importance to the Group.</p> <p>The exposure in product quality and standards may bring serious ramifications in terms of financial impact as well as reputational impact.</p>	<div>MITIGATION ACTIONS</div> <ul style="list-style-type: none">Quality assurance cycle begins with suppliers' pre-qualification and approval, source or origin of raw materials, manufacturing facilities and procedures, up to the distribution and storage of our products.Comprehensive policies and procedures established on processing, packaging and storage, equipment and plant sanitization as well as employee personal hygiene to prevent contamination.Compliance with stringent quality systems in place such as ISO22000, Food Safety System Certification 22000 and HACCP Certification by Ministry of Health.Contingency plans on product traceability and product recall/withdrawal should such circumstances arise.	<div>LINK TO MATERIAL ISSUES</div> <div></div>

LEGENDS



Economic Performance



Occupational Health & Safety



Product & Service Labelling



Consumer Health & Safety



Sustainable Sourcing



Innovation



Packaging



Creating Value for Society

INCREASING AWARENESS ASSOCIATED WITH EXCESSIVE SUGAR CONSUMPTION

RISK

Consumers are becoming more informed on possible health effects associated with excessive sugar consumption. While adapting to the recently implemented and/or impending policy changes on sugar tax within the region, the challenge faced by the Group today is how do we move beyond sugar reduction.

Should we fail to address the shift in the consumer trends nimbly and effectively, it may result in financial as well as reputational impact in the longer term.

MITIGATION ACTIONS

- Continuous improvement on the offerings of healthier choice products in our innovations roadmap with target to offer a healthy option in every product category that we are in by 2020.
- Prioritise R&D on developing new products and further improve existing products to meet consumers' demand for healthier choices such as low-sugar, non-sugar added and mid-calorie beverages, without compromising on taste.
- Proactively decrease our sugar index (amount of sugar contained per millilitre of all our beverages).
- Introduce new pack size as part of our portion control commitment.
- Promote sports and active lifestyles through programs that target schools and communities.

LINK TO MATERIAL ISSUES



OPERATIONAL DISRUPTION IN THE EVENT OF CRISIS OR DISASTER

RISK

The Group is exposed to risks associated with anticipated or unanticipated disruption to the normal operations of the Group which could be due to internal or external factors.

MITIGATION ACTIONS

- Group Business Continuity Management Framework (BCMF) has been established which sets out the policies and procedures in relation to response, recovery and restoration of business in the event of a crisis or disaster.
- Business Continuity Plans (BCP) are in place and being tested in accordance with the BCMF.
- Regular engagement with internal and external stakeholders to balance stakeholders needs.
- Maintain healthy cashflow positions during crisis.
- Ensure compliance with SOPs issued by government.

LINK TO MATERIAL ISSUES



CYBER SECURITY THREATS

RISK

Amid the evolving technology-reliant business environment, the Group is exposed to cyber security threats from cyber criminals which may compromise data integrity and even leakage of confidential and sensitive information which is valuable to the Group.

MITIGATION ACTIONS

- The Group has developed Cybersecurity Framework to provide guidance to businesses on managing cyber security risks.
- Regular trainings and constant updates related to cyber threats are provided to all employees to maintain awareness level.

LINK TO MATERIAL ISSUES



NEGATIVE PERCEPTION STEMMING FROM NEWS IN RELATION TO HALAL COMPLIANT STATUS

RISK

Living in the age of social media, it is difficult to immune from false allegations in particularly where the Group's Halal compliant status is concerned.

MITIGATION ACTIONS

- Halal Governance and Assurance Framework is put in place with dedicated resources to implement the framework and uphold the Halal standards.
- Stringent compliance with Halal standards from sourcing of raw materials to delivery of products.
- Close monitoring of news published in the media and response procedures are in place to manage situations.

LINK TO MATERIAL ISSUES



STRATEGIC REPORT:

Strategic Performance Review

At F&N, we believe sustainable and profitable growth requires a balanced approach where our brands stay relevant to consumers, and our people, stakeholders and communities grow together as we strengthen our presence in the market. Inclusive growth for all means, we must create value for all our stakeholders, and we do this by consistently offering great products and brands while ensuring they are accessible to consumers. Three strategic priorities, namely Innovation, Cost Competitiveness and Excellence in Execution (I.C.E.), provide the focus and clarity while our Global Values act as guiding principles towards achieving our growth objectives.

INCLUSIVE GROWTH STRATEGY



STRATEGIC PRIORITIES

Innovation

Innovations beyond new product development to serve our customers' needs.

Cost Competitiveness

Optimising operational costs by leveraging on our strengths while maximising opportunities.

Excellence in Execution

Driving operational excellence in our core businesses.

GLOBAL VALUES: COLLABORATION,

2020 HIGHLIGHTS



- ◆ Successfully launched 10 new products including 5 healthier options. Also started our foray into adjacent ready-to-eat category with milk candy tablets under the brand Magnolia Milkies in Thailand.
- ◆ Embarked on e-Commerce journey with establishment of F&N Life in Malaysia. Scaled up our online operations in March during the MCO. F&N Life now offers no less than 250 product types while achieving more than 20,000 user downloads in less than a year.
- ◆ Offered packaging options that deliver even more value in the current climate of cost and environmentally-conscious consumers. For the export market, we introduced one metric tonne packaging for sweetened condensed milk catering specifically to F&B manufacturers. We also introduced an eco-friendly packaging option for F&N ICE MOUNTAIN Drinking Water.



- ◆ Maintained full Year profit after tax of RM410 million from successful cost management across the organisation despite higher commodity cost.
- ◆ Improved operational and cost efficiencies through various initiatives to reduce consumption of resources, improve productivity and yield while enhancing product quality.
- ◆ Completed three significant capex projects during the year that expanded our capabilities despite the inevitable delays caused by movement restrictions.



- ◆ Protected and grew our market leadership in key categories despite general market decline due to COVID-19. Increased brand presence via online and offline platforms by adopting innovative approaches to boost customer experience and e-commerce engagement.
- ◆ Maintained adequate supply of our core products in the market during the MCO in Malaysia and the emergency decree in Thailand. Expanded our direct distribution network in Malaysia and increased our distribution network coverage by 2,000 new outlets in Thailand.
- ◆ Enforced strict hygiene and standard operating procedures (SOPs) in our workplaces as well as adopted flexible work arrangements and videoconferencing to safeguard employees' well-being.

2021 PRIORITIES

- ◆ Continue to develop healthier products and more packaging formats to meet the evolving needs of our consumers.
- ◆ Reinforce our environmental stewardship with sustainable packaging and carbon reduction initiatives in our operation.
- ◆ Develop competency in emerging technologies and smart automation among our talents to accelerate a new, data-driven way of working.

- ◆ Focus on process improvements and digitalisation to capture more values along the value chain.
- ◆ Complete on-going capex projects and enhance insourcing capabilities.
- ◆ Cost reduction initiatives across all facets of operations, including sourcing of materials, marketing, logistics and distribution, and manufacturing.

- ◆ Maintain business as usual as efficiently as possible while safeguarding the well-being of our employees and the community.
- ◆ Strengthening our reach via strategic collaborations and effective route-to-market strategies. Deepen our foothold in Export markets.
- ◆ Disciplined portfolio management across different channels to accelerate brands growth in domestic markets and abroad.

STRATEGIC REPORT:

Key Performance Indicators

HOW WE TRACK OUR PROGRESS

F&N is focused on building a stronger and more sustainable business for the future through continued focus on profitable growth, sustainable cost structure, and organisation excellence.

Here are several financial and operating metrics that help us to measure our effectiveness in achieving our inclusive growth objectives in creating value for our people and stakeholders while we expand our portfolio and reach.

Complementing these metrics are ten sustainability targets that track our eco-efficiency, health & safety parameters, sustainable sourcing and contribution to our community's well-being.



> Read more about 'summary of the targets and progress', on pages 032 to 035 of the SR

PEOPLE & STAKEHOLDERS

Creating value for our people, consumers, business partners, shareholders and the society we operate in.

INCLUSIVE GROWTH OBJECTIVES

BRANDS & PORTFOLIO

Growing our brands and portfolio of products to win in more markets.

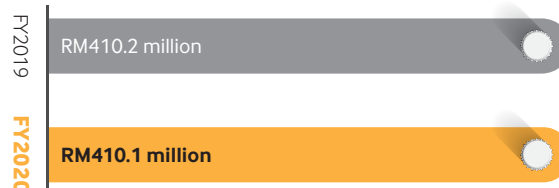
MARKET & MARKETPLACE

Growing the breadth and depth of our market reach.

FINANCIAL INDICATORS

Objective: Maximise value creation and provide good returns to shareholder.

Profit After Tax



OPERATIONAL EXCELLENCE

Objective: Ensure sustainable revenue growth and increase the Company's efficiency and cost competitiveness.

Revenue



ORGANISATIONAL CAPABILITY

Objective: Build capability of our talents and product innovation to maintain our competitive edge.

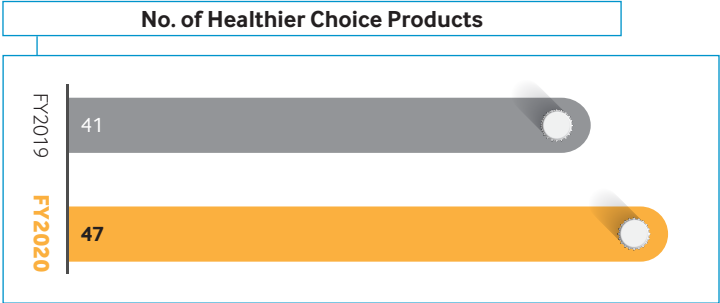
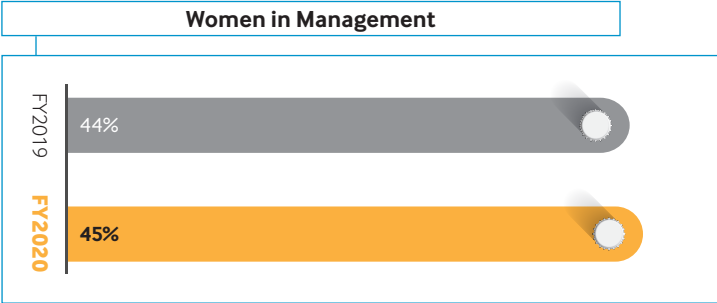
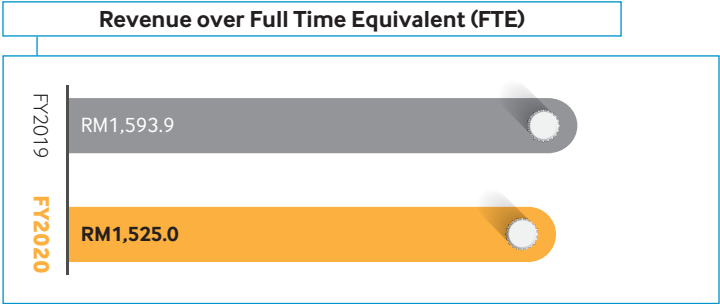
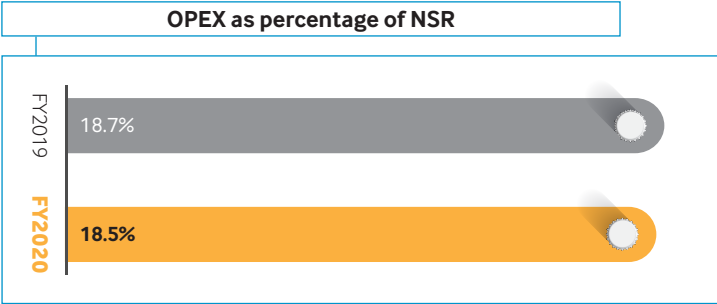
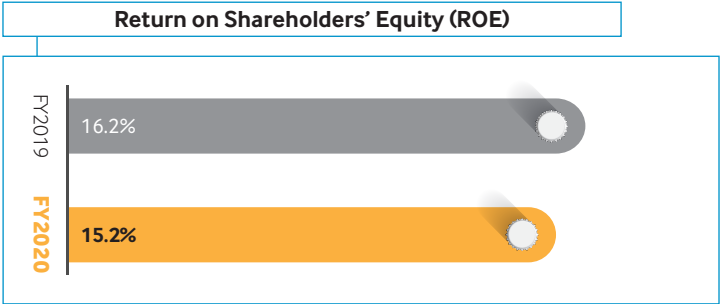
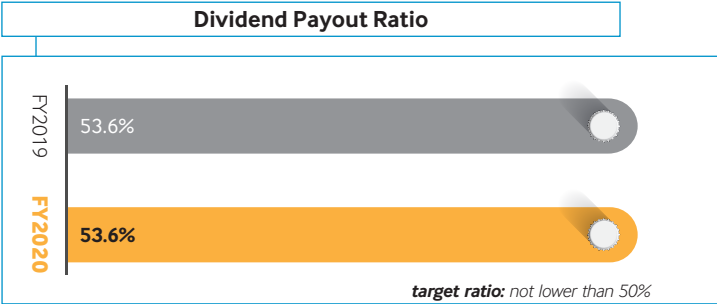
Average Training Hours per Employee



target: at least 12 training hours per employee

SUSTAINABLE PRACTICES

Our strategy is further guided by our Sustainability framework in creating value for all stakeholders through proactive management of our key material issues.



We measure our performance through the F&N Group Sustainability 2020 Goals which included tracking our eco-efficiency, health & safety parameters, sustainable sourcing and contribution to our community's well being. Refer to page 032 to 035 of our Sustainability Report for a summary of the targets and progress to date.



pepsi

ที่พอ
TEAPOT



ที่พอ
TEAPOT

A person wearing a blue apron is holding a can of Teapot brand condensed milk. The can is blue and white with the word 'TEAPOT' in yellow. In the background, there are orange storage bins and a red and white striped awning.

Customers

Our partnerships with small businesses, cafes and dining establishments ensure our well-loved products are accessible to more of our consumers. By prioritising their needs, we fuel their growth, so they can continue to put a smile on your face with your favourite beverages.

Bringing
Smiles
😊