



**MASAN CONSUMER CORPORATION**  
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## **ENGLISH TRANSLATION**

# **REPORT OF THE BOARD OF DIRECTORS AT THE 2019 ANNUAL GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders,

The Board of Directors (the “Board”) would like to report to the 2019 Annual General Meeting of Shareholders of Masan Consumer Corporation (the “Company” or “Masan Consumer”) on the Board’s activities in 2018 as follows:

## **I. OVERVIEW**

Vietnam’s economy recorded its strongest annual expansion in a decade in 2018 with a surge in growth in the final quarter. According to General Statistics Office (GSO), real GDP grew by 7.1% in 2018, the highest level in 11 years (nominal GDP was up 10.6%). Robust growth in the services sector and brisk industry and construction activity powered the 2018 growth, while agricultural output also picked up. The manufacturing sub-sector was a star performer, while the flourishing tourism sector also continues to be a key driver of growth. The share of agricultural sector has declined from 22% in the last decade to 15% in 2018 – pointing to a structural shift of the economy towards industrialization.

Vietnam’s demographics and rising income levels support strong continued growth in domestic consumption. The country has just entered an anticipated 30-year era of “demographic dividend” with nearly 70% of its 90 million residents in the working age population and 56% of its residents under the age of 30. Over the next 10 years, the working age population is expected to grow by at least one million per year.

Vietnam’s expanding workforce is expected to drive consumer spending. In addition, the combined effects of continuous economic growth, rapid urbanization, “demographic dividend,” emergence of middle-income earners, and an expanding modern retail network, will fuel the growth of overall food consumption in the medium- to long-term. According to Nielsen, Vietnam’s Consumer Confidence Index grew significantly in 3Q2018, boosting Vietnam’s ranking to the top 2 in consumer confidence in the world.

Vietnam’s food and beverage sector is expected to maintain double-digit growth rates for the near future, primarily due to increased domestic consumer demand fueled by a rise in disposable incomes. As a result, Masan is well positioned to benefit from Vietnam’s improving macroeconomic outlook, especially from growing consumer confidence in Vietnam, as a market leader with a portfolio of basic consumer staple products.

After transforming back our business model from “product pushing” to “brand building” in the end of 2017, which required sacrificing sales to build a more sustainable route-to-market, Masan

Consumer returned to growth in 2018. This strategic initiative to de-stock distributor level inventory was primarily done to improve route to market efficiency and reduce the amount of selling expenses dedicate to trade promotion so that the Company can invest in its brands and support the launches of its new innovations. As a result, 2018 net revenue increased by 28% compared to 2017, which is such a significant growth compared to 5 recent years.

2018 sales of our core categories (seasonings, convenience foods, and instant coffee), grew dramatically. We saw a strong recovery in seasoning, instant noodles, up 35% and 29% compared to 2017. Our energy drinks grew by 36% compared to 2017. The shift to a brand driven business model also enabled us to sustainably reduce trade promotion activities, resulting in EBIT margin increasing by more than 3%, from 19.8% in 2017 to 22.8% in 2018.

In 2018, we focused more on exporting to markets such as North America, China, Europe, Australia, and East Asia. Our main export markets have experienced remarkable growth, demonstrating positive progress in the journey towards becoming and being recognized as the most successful company in building Vietnamese brand in international market. We have established key distribution partnerships in the North American markets, specifically the United States and Canada, by promoting the export of two main categories: seasonings with the Chin-Su brand and coffee with Vinacafé. Our export products are specifically developed to meet the tastes and stringent food safety regulations of the importing country. In China, we have focused on developing our instant coffee business with the export of Vinacafé and Wake-Up, paving the way for our leading brands to enter the world's second largest economy country.

For 2019, Masan Consumer expects to deliver between 20% to 30% growth in revenues and profits driven by a successful premiumization strategy in our core portfolio and growing market share in our new growth pillars.

## **Business Environment**

Masan Consumer's existing operations are focused primarily on Vietnam and our performance and the quality of our assets depend substantially on the stability of Vietnamese economy. Hence, going forward, economic environment in Vietnam and In-land ASEAN overall may significantly impact Masan's operations, in addition to a variety of external factors, including economic developments throughout Asia and the rest of the world.

In addition, various macroeconomic factors including but not limited to personal expenditure and consumption patterns, inflation levels, interest rates, commodity price levels, debt burden of consumers or businesses and general availability of credit, as well as factors such as the spread of disease, large-scale acts of war, terrorism or any other adverse social, geographic or political incidents may affect Masan's business operations adversely.

In 2019, Vietnam's economy is expected to continue expanding, supported by growing domestic consumption on the back of higher disposable incomes, expanding middle class, higher rate of urbanization and a banking system with stronger asset metrics.

Internationally, expected increase in soft commodity prices during 2019 may adversely impact margins for Masan's primary consumer businesses. Strong demand-side pressure and any unexpected depreciation of the Vietnamese Dong against the U.S. Dollar could make it more expensive to import goods, and push up overall prices for goods and services.

## **Vietnam Consumer Sector**

Vietnam's demographics present an excellent opportunity for the rise in domestic consumer demand and is expected to persist through the next several decades. There are other trends allied to these demographic realities, which will influence consumer behavior, including: (i) higher numbers of women in the workforce, (ii) increasing urbanization, (iii) busier lifestyles and (iv) greater exposure to marketing. These could result in structural changes in the consumer market, including: (i) greater demand for convenience foods, (ii) greater focus on quality and health aspects of products, (iii) consolidation and greater preference for branded products and (iv) demand for new products and variants.

The markets for most food and beverage products have been consolidating over the last few years, driven by: (i) higher disposable income in the hands of consumers and resultant focus on product quality, (ii) greater awareness of health and safety issues and (iii) greater investments in product development, marketing and distribution by large players.

### **Sauces, Condiments and Dressings**

Among the diverse range of products available in sauces, dressings and condiments in Vietnam, fish sauce is regarded as one of the most important in local cuisine. According to a study by Kantar Worldpanel, around 97 per cent of Vietnamese families in urban areas use fish sauce in their meals on a daily basis. In terms of distribution, traditional channels such as small independent grocers and kiosks in wet markets are often the most effective way to reach consumers despite increasing urbanization. In 2018, Masan Consumer remained the leading player in sauces, dressings and condiments thanks to its dominance in fish sauces and soy sauces and strength in chili sauces.

In 2018, growth in Masan Consumer's seasonings category was driven by strong volume growth in core brands and premium innovations. Seasonings' net revenue in 2018 increased by 35% to VND6,958 billion from VND5,159 billion in FY2017. Core brands, Chin-su and Nam Ngu continued to perform well, as volume growth of 26% was the main driver behind the seasonings category topline growth. Masan continued to launch premium variants, with contribution from premium portfolio comprising ~10% of net revenue in 2018. Premiumization strategy continued to work well, as successful launch of premium variants helped average selling price across the category to increase by ~7% in 2018 vs last year.

### **Convenience Foods**

Packaged food in Vietnam is a very competitive category, with multiple players offering a diverse array of brands competing across the market. Aside from the country's large population, strong economic growth and increasing openness to foreign investment have helped to attract many new local and international companies into the market in recent years. Packaged food companies in Vietnam continue to develop new products in response to rising disposable incomes, better education about nutrition and increased concern about food safety among local consumers. In particular, manufacturers are expected to introduce products containing more added-value ingredients to meet the changing demands of consumers. Masan Consumer continued to be the second largest player in the instant noodles category as per Nielsen, during 2018.

During 2018, Masan Consumer's convenience foods category delivered double-digit volume growth in core brands coupled with ASP growth and launched new innovations in meal solution. 2018 turned out to be an inflection point for convenience foods category with 23% volume growth and 6% growth in average selling price across the segment, coupled with innovative new product launches like Omachi Cup - full meal solutions, and Omachi mashed potatoes. As a result, segment net revenue was up by 29% to VND4,636 billion in 2018, compared to 2017. "Omachi" range of premium products delivered 34% growth during 2018 vs last year, and now comprise ~40% of the category. During 4Q2018, Masan also entered into the super-premium category with Omachi – Business Class cup noodles, a full-meal solution with meatballs.

## **Beverages**

The beverage industry is primarily divided into two categories; hot drinks and soft drinks. Hot drinks include coffee, tea and other hot drinks which consist of chocolate, malt-based drinks, among others. Soft drinks include bottled water, carbonates, concentrates, juices, ready-to-drink coffee, ready-to-drink tea, Asian specialty drinks and sports and energy drinks.

## **Coffee**

Vietnam is expected to register strong GDP growth and lower unemployment levels, which would support consumer confidence in spending. More consumers would also have to juggle hectic lifestyles, fueling the need for convenience products like instant hot drinks. Coffee is expected to be the biggest beneficiary of this trend. As instant coffee is the most important product in the off-trade channel, new product developments are important to maintain competitiveness among brands. Many Vietnamese like their coffee to be strong and robust, like the traditional Vietnamese filter coffee, which was the direction for new instant coffee products that were launched in 2018. On-trade channel recorded higher volume growth than off-trade in 2018, as people ate out more frequently. In urban areas, young people usually spend long hours at work and prefer to eat out rather than cooking at home.

Masan Consumer's coffee category (excluding Wake-Up 247, which is covered under beverages) recorded VND1,708 billion in net revenue for FY2018, up by 11% compared to VND1,532 billion in FY2017, with all of the growth attributable to increased volumes. Significant innovations will be required to maintain double-digit growth in this category going forward, as the market becomes increasingly competitive with both foreign and local players vying for the rising demand for convenience among consumers.

## **Soft Drinks**

Vietnamese consumers are increasingly becoming health conscious and prefer healthy drinks which has continued to drive the growth of the soft drinks market. This saw increased preference towards healthier alternatives such as ready-to-drink tea, juice and bottled water. Another growth driver is demand for energy drinks from people working in blue-collar sectors such as manufacturing, agriculture and transportation. All soft drinks categories recorded positive performances in 2018, with some seeing strong double-digit growth in total volume terms.

During 2018, energy drinks continued to be major growth driver for the beverages category. "Wake Up 247" brand has been one of the most successful innovation products launched by Masan in recent years, with net revenue growing at a CAGR of ~50% since 2015. Focused brand communication, increase in distribution from 75,000 POS last year to 160,000 in 2018, has

helped the energy drinks category deliver VND1,947 billion in net revenue for 2018, a growth of nearly 60% compared to 2017. Overall, the beverages category (including bottled water and energy drinks) achieved net revenue of VND2,789 billion in 2018, up 36% compared to 2017. “Vivant” premium mineral water brand launched in October 2018 is expected to be an important growth driver for the water segment in the near future.

## **Processed Meat**

Consumers’ demand for better-quality food in terms of taste, affordability and nutrition is also reflected in their evolving consumption of meat and seafood products, staples in Vietnamese cuisine. Vietnam consumers are also being exposed to a multitude of influences and types of cuisine available and are open to trying out new types of cuisine from the West and developed Asian countries such as Japan and South Korea, which also create an interest in newer form of meat consumption. However, in terms of the processed meat and seafood available through retail in Vietnam as of 2018, the product range had yet to keep pace with the types of food available through foodservice outlets. As a result, consumers are expected to continue looking for a wider variety of flavors and cooking styles in their processed meat and seafood packaged food, and manufacturers would need to innovate to cater to these increasingly diverse demands.

Masan Consumer’s processed meat category delivered VND210 billion in net revenue during 2018, decline of 5% compared to 2017, mainly due to the delay in setting up our joint-venture with Jinju Ham, one of the leading players in the processed meat industry in South Korea. During 4Q2018, Masan launched Pönnie - premium sausage brand, the first co-produced innovation between Masan and Jinju Ham. Solid innovation pipeline for 2019 augurs well for this category, as more premium and innovative product launches are expected. Masan is investing to build a new state-of-the production line for this category during 2019.

## **II. ACTIVITIES OF BOARD OF DIRECTORS IN 2018**

1. In 2018, Board of Directors participated in:
  - Overseeing the activities of the Chief Executive Officer and other managers related to the daily operations of the Company;
  - Coordinating closely with the Chief Executive Officer and Management Board to discuss strategy and issues of the Company;
  - Deciding on restructuring the business model and organizational structure of the Company to be more efficient; and,
  - Deciding on investment projects of the Company and its subsidiaries.
2. In 2018, there were no transactions between Masan Consumer Corporation and members of the Board of Directors of the Company.
3. In 2018, the Board of Directors received no compensation.

## **III. 2019 FINANCIAL OUTLOOK**

For 2019, Masan Consumer’s will continue strengthening its business model and practices, with a clear focus on sell-out growth (sales from our distributors to consumers) and building win-win

relationships within our ecosystem of suppliers and distributors. This focus is expected to enable Masan to deliver significant growth and ensure sustainable growth in the medium-term for our food and beverage business.

In 2019, we will focus on premiumizing our core categories such as seasonings and convenience foods and expect to see continued growth in our beverage business, anchored by the success of our energy drink sub-category. We are also excited about our prospects for processed meat business and we expect to start seeing greater impact from our joint venture partnership with Jinju Ham of Korea.

In addition, we will continue to optimize our SG&A to drive profitability and generate robust cash flows to allow us to continue building power brands. Our commitment to building power brands is part of our efforts to ensure that our business model is less “product pushing” and more “brand building”, which is based on increasing end-consumer’s demand. Margins could be impacted by higher than expected input costs. However, through our R&D platform and innovation, we aim to reduce conversion and input costs to offset the input price pressures. In addition, superior operational execution could also minimize logistics and indirect costs, lifting EBIT margins.

As a result of the aforementioned reasons, Masan Consumer expects to deliver a 20% to 31% growth in topline for FY2019, with net profit after tax and non-controlling interests expected grow by 20% to 25%.

<i>(VND billion)</i>	<b>Plan 2019</b>		<b>Actual 2018</b>	<b>Growth Rate</b>	
	Low End	High End		Low End	High End
Net Sales	20,400	22,300	17,006	20%	31%
Net Profit after Tax and Non-controlling interests (VAS)	4,050	4,200	3,367	20%	25%

Yours sincerely,

*Ho Chi Minh City, April 12, 2019*

**ON BEHALF OF THE BOARD**

**CHAIRMAN**

*(signed and sealed)*

**TRƯƠNG CÔNG THẮNG**

**APPENDIX**  
**RESOLUTIONS OF THE BOARD OF DIRECTORS IN 2018**

<b>No.</b>	<b>Number of the Resolutions</b>	<b>Date</b>	<b>Main content</b>
1.	01/2018/NQ-HĐQT-MSC	28/2/2018	Approving the change of Chief Executive Officer and Legal Representative of the Company
2.	02/2018/NQ-HĐQT-MSC	28/2/2018	Approving CAPEX project of Masan Industrial One Member Company Limited and CAPEX budget in 2018.
3.	03/2018/NQ-HĐQT-MSC	05/3/2018	Approving the shareholders' book closing date for 2018 AGM.
4.	04/2018/NQ-HĐQT-MSC	09/4/2018	Approving the transfer of manufacturing line among its subsidiaries.
5.	05/2018/NQ-HĐQT-MSC	13/4/2018	Approving the matters presented for 2018 AGM's approval.
6.	06/2018/NQ-HĐQT-MSC	08/5/2018	Approving CAPEX project of Masan Industrial One Member Company Limited.
7.	07/2018/NQ-HĐQT	31/5/2018	Approving CAPEX project of Masan Industrial One Member Company Limited.
8.	08/2018/NQ-HĐQT-MSC	11/6/2018	Approving the issuance of new shares under ESOP.
9.	09A/2018/NQ-HĐQT-MSC	27/6/2018	Approving CAPEX project of its subsidiaries.
10.	09/2018/NQ-HĐQT-MSC	28/6/2018	Approving the timeline of issuance of new shares of the Company.
11.	10/2018/NQ-HĐQT-MSC	29/6/2018	Approving the authorization of the Chairman of the Board of Directors to appoint the senior managers.
12.	11/2018/NQ-HĐQT-MSC	16/7/2018	Approving the increase of charter capital of the Company under ESOP.
13.	12/2018/NQ-HĐQT-MSC	25/7/2018	Approving CAPEX project of Masan MB One Member Company Limited.
14.	13/2018/NQ-HĐQT-MSC	30/7/2018	Approving the increase of short term credit line of the Company provided by a bank.
15.	14/2018/NQ-HĐQT-MSC	01/8/2018	Approving the issuance shares for increase of share capital with finances from the equity under Shareholders' Resolution.
16.	15/2018/NQ-HĐQT-MSC	13/8/2018	Approving CAPEX project of Masan Industrial One Member Company Limited.

17.	16/2018/NQ-HĐQT-MS	17/8/2018	Approving CAPEX project of Masan MB One Member Company Limited.
18.	17/2018/NQ-HĐQT-MS	07/9/2018	Approving the increase of charter capital of the Company by issuance shares for increase of share capital with finances from the equity.
19.	18/2018/NQ-HĐQT-MS	22/10/2018	Approving the short term credit line of the Company provided by a bank.
20.	19/2018/NQ-HĐQT-MS	22/10/2018	Approving the short term credit line of the Company provided by a bank.
21.	20/2018/NQ-HĐQT-MS	22/10/2018	Approving the short term credit line of the Company provided by a bank.
22.	21/2018/NQ-HĐQT-MS	22/10/2018	Approving CAPEX project of Masan HG One Member Company Limited.
23.	22/2018/NQ-HĐQT-MS	12/11/2018	Approving the short term credit line of the Company and its subsidiaries provided by a bank.
24.	23/2018/NQ-HĐQT-MS	12/11/2018	Approving the medium and long term credit line of its subsidiary provided by a bank.
25.	24/2018/NQ-HĐQT-MS	12/11/2018	Approving the short term credit line of the Company provided by a bank.
26.	25/2018/NQ-HĐQT-MS	12/11/2018	Approving the short term credit line of the Company provided by a bank.
27.	26/2018/NQ-HĐQT-MS	19/11/2018	Approving the short term credit line of the Company provided by a bank.
28.	27/2018/NQ-HĐQT-MS	22/11/2018	Approving the increase of short term credit line of the Company provided by a bank.
29.	28/2018/NQ-HĐQT-MS	27/11/2018	Approving CAPEX project of its subsidiary.
30.	29A/2018/NQ-HĐQT-MS	27/11/2018	Approving the short term credit line of the Company provided by a bank.
31.	29B/2018/NQ-HĐQT-MS	27/11/2018	Approving the short term credit line of the Company provided by a bank.
32.	30/2018/NQ-HĐQT-MS	10/12/2018	Approving CAPEX project of its subsidiaries.
33.	31/2018/NQ-HĐQT-MS	10/12/2018	Approving the transfer of CAPEX project among its subsidiaries.
34.	32/2018/NQ-HĐQT-MS	10/12/2018	Approving CAPEX project of Masan MB One Member Company Limited.
35.	33/2018/NQ-HĐQT-MS	10/12/2018	Approving the short term credit line of the Company provided by a bank.



36.	34/2018/NQ-HĐQT-MS	10/12/2018	Approving the short term credit line of the Company provided by a bank.
37.	35/2018/NQ-HĐQT-MS	25/12/2018	Approving the earnings allocation from its subsidiaries.
38.	36/2018/NQ-HĐQT-MS	28/12/2018	Approving the authorization in relation to the issues of establishment and operation of its subsidiaries.
39.	37/2018/NQ-HĐQT-MS	28/12/2018	Approving the medium and long term credit line of its subsidiaries provided by a bank.