

A MESSAGE FROM OUR CHAIRMAN AND CEO

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Dear Fellow Shareholders,

We are just a few weeks into the new year. We are filled with a sense of gratitude, relief, and excitement - gratitude for the year of buoyant trading; relief because the businesses fared better than expected in a year where consumer markets faced multiple challenges; and finally, excitement because as we celebrated our 40th year last year, we believe the company is well-positioned to continue our primacy as we look to the future.

2018 BUSINESS RECAP

Our sales came in at almost PHP38 billion, 15% more than last year. The top line was driven by the branded businesses which turned in a bumper performance of 20% growth. The growth was broad-based with all three branded main businesses of marine, meat, and milk registering healthy revenue growth rates.

In a year where our country saw the highest inflation, highest interest rates, and the weakest peso in years, our business portfolio, composed mostly of consumer staples, showed resilience. We did have to steadily raise prices for most SKUs but did so gradually, careful not to upset our value-for-money positioning, implemented cost management, and instituted tactical trade promotions to dampen the sting of higher prices.

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The inflationary environment saw our lower-priced brands grow faster as consumers coped with rising retail prices for both food and non-food items. There was also a marked acceleration of growth outside the National Capital Region with growth rates in Visayas and Mindanao approaching twice that of Metro Manila.

With the top line growing mid-teens, the bottom line lagged, growing at a pace of 11% but still delivering a respectable PHP2.8 billion of net income or a net margin of 8%. Frankly, this came in better than we had expected as of the midpoint of the year, given the fog of uncertainty caused by inflation that almost reached 7%. Fortunately, the inflationary fever appears to have

broken, and the latest readings are showing inflation trending lower to a more manageable 4%.

Our OEM tuna and coconut businesses registered flattish revenue growth versus last year but outperformed on delivering their bottom lines. The tuna OEM business maneuvered well amidst another year of volatile raw material price swings which saw tuna prices between \$1,300 and \$1,800 per metric ton. The coconut business benefited from coconut prices that corrected from the record prices seen in 2017.

Our balance sheet metrics are healthy. We are very liquid with a current ratio of 2x. Our net debt levels are low with a net gearing ratio of 0.3x and net interest-bearing debt-to-EBITDA of 1x. This provides the company with more than enough resources to fund our expansion requirements and gives us the flexibility to look at acquisition opportunities. In 2018, our return on equity continues to be an attractive 18%.

Overall, we are grateful and relieved with how we navigated the choppy conditions. Not quite a bumper year, but we personally would still consider this past year a "win."

40TH ANNIVERSARY

Our company turned 40 in 2018. From our founding in 1978 as a fledgling private label tuna manufacturer, Century has come a long way.

It would be an understatement to say that we have much to be grateful for these last 40 years. It was this business that paid the bills and allowed us and our siblings to get the best education. Where we are today as a family, and even our identify, is intertwined with this company. Therefore, on a very personal level, we as a family are motivated now, as ever, by a strong sense of duty and loyalty to pay it forward for the next generations.



A photograph of two men in dark suits standing in a supermarket aisle. The man on the left is bald and wears glasses and a blue tie. The man on the right has dark hair and wears a yellow tie. They are standing in front of shelves stocked with Argentina brand products, which are yellow and red cans. The aisle extends into the background with more shelves of various products.

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Of course, the business is bigger than the Po family. Our employees, supply base, business partners and customers, and their families have all benefited from the economic value created by the company's activities. We personally get satisfaction when we hear about our employees achieving personal milestones like buying their first car or house. We are also gratified when we hear about our suppliers building up their businesses to support our expansion. Our pursuit of business growth takes on more meaning when considering the multiplier effect of our economic activity and the livelihoods generated.

On this occasion, we also appreciate those who came before us: our father - our founder - and the many men and women who, through the decades, built the company to what it is today. What was passed on to us consists of the different businesses; the brands; the relationships with customers, suppliers, and trade partners; our credit standing with our bankers and investment community; the trust and patronage of our end consumers; the motivated and passionate Century business teams; and our corporate reputation and goodwill with the community at large.

All these are precious assets we need to guard jealously. They are what make up the "moat" that protects our business. The Century team is highly motivated to build on this solid foundation as we forge our way into the future.

HEALTHIER, MORE INCLUSIVE, MORE RESPONSIBLE

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We used the occasion of our 40th anniversary to refresh our purpose, vision, and mission.

During that exercise, our team affirmed that we were largely on the right track. What was new however, which bubbled up from the ranks, was a desire to be a more responsible company. There was a growing clamor to look into things like the sustainability of our supply chain, and to set goals for healthier new product innovations or find ways to mitigate flexible/plastic waste, etc.

This ground swell from team members, coupled with more frequent questions about our Environmental, Social, and Governance (ESG) aspects of our business from customers and investors, has inspired us to explore more responsible and sustainable ways of running our business.

We have over the years been doing our share in this area such as our membership to the International Seafood Sustainability Federation (ISSF) and the Marine Stewardship Council (MSC), partnerships with WWF Philippines, our submitting to social audits from global customers, supporting the *Kain Po* feeding programs that distribute around 5 million meals a year, and so on.

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However, this time is different. We aspire to go beyond compliance and have incorporated sustainability as part of our purpose, vision, mission, and values. It is a fundamental examination of our identity, what motivates us, and how we can integrate ESG into our business.

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We codenamed this undertaking "Project InSpire" which we are rolling out across the entire company. We will identify key risks and opportunities and begin reporting KPIs that will allow us to set targets and improve along various ESG dimensions.



These are our first steps on our ESG journey. We are personally involved and are keen to learn how to make ours a more responsible CNPF, while at the same time meeting our ambitious business goals. We have a lot to learn and a lot of thinking to do.

2019 OUTLOOK

For this year, we are planning for double-digit to mid-teens top line growth and expect our branded businesses to continue to drive that performance.

We have been growing at a 17% CAGR pace these last 4 years. A growing middle class, urbanization, premiumization, and consumer preference for healthier lifestyles are some of the long-term trends that have provided the tailwinds for us to achieve this and will likely continue to do so over the next few years.

This year, the inflation tide has finally turned, and most commentators are calling for 6% to 7% economic growth again for the Philippines with a boost coming from mid-term elections in May. Therefore, the economic conditions should even be better than last year.

With this as a backdrop, there are many opportunities out there, and we are in a good position to capture them. No doubt, the challenges of aggressive competition, demanding customers, value-seeking consumers, changing regulations, and rising costs will

not abate. We will continue to manage our way, as we always have, to weather these obstacles and persevere in meeting our targets.

This year, we will also be more active with new product developments (NPDs). We have been more conservative with product launches the last two years in order to conserve resources and allow the team to focus on the previous batch of new products and activities. Now, the innovation pipeline is reloaded, and we are ready, earmarking a number of key product launches this 2019.



Because of higher investments this year in NPDs, we expect our bottom line to grow at a slower high single-digit to low double-digit rate relative to the revenue line. Even as these additional costs weigh on us in the short term, we are hopeful that the innovations will provide sources of growth and will strengthen our overall business.

This year we will also be investing more than usual in capital expenditures (capex). We have budgeted around PHP2 billion worth of projects for capacity expansion, replacement and maintenance capex, as well as efficiency capex. The biggest ticket time on the list is the new tuna plant, accounting for almost one third of the total budget. After five years of double-digit growth, the business now requires us to invest again in a plant that will support the future plans of our core business. We are confident that this investment will generate an internal rate of return of high teens.

We try, however, to be as asset-light as we can; but each situation is different, so we have to judge them by their strategic importance, ROI attractiveness, and execution riskiness. The expansion and efficiency capex projects that make it through the funnel are generally expected to deliver IRRs of 18% or better. Thus, we do not mind this year's capex bill as we will sweat the assets to yield a tidy return.

The year has already begun, and we are pleased that we started off with good momentum coming from the year end. Our outlook is one of cautious optimism, and we are excited to work with our team to implement our business plan.

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Finally, let us take this opportunity to thank you, our shareholders, for your continued trust and confidence. We do not take this responsibility lightly. We will continue to work hard to be good stewards of your capital.

Sincerely,

CHRISTOPHER T. PO
Executive Chairman

TEODORO T. PO
President & CEO

February 2019