

## DUTCH LADY MILK INDUSTRIES BERHAD INTEGRATED ANNUAL REPORT 2022



Nourishing Our Planet and People  
in Every Stage of Life

# INSIDE THIS REPORT

## NOURISHING OUR PLANET AND PEOPLE IN EVERY STAGE OF LIFE

We remain focused on providing Malaysians of all ages with dairy products that are rich in nutrients from milk. Producing good and healthy dairy products for nourishing people is at the core of what we do as a business.

We assume greater responsibility towards our planet, by operating with efficiency. We strive to do more and achieve more with less resources. We also aspire to create intergenerational equity by making things better today and for tomorrow's generations of stakeholders.

During the year 2022, despite challenging economic conditions, we continued to provide healthy nutrition to Malaysians of all ages, while accelerating our journey in shaping sustainable business practices and agenda.

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Run the QR Code Reader app and point your camera to the QR Code



Get access to the soft copy of our reports and contact information



Soft copy version of Dutch Lady Milk Industries Berhad Integrated Annual Report 2022

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## 60<sup>TH</sup> ANNUAL GENERAL MEETING

26 May 2023 | Friday | 10.00 a.m.

### Broadcast Venue:

12<sup>th</sup> Floor, Menara Symphony  
No. 5, Jalan Prof. Khoo Kay Kim  
Seksyen 13, 46200 Petaling Jaya  
Selangor, Malaysia



# ABOUT DLMI

## INTEGRATED ANNUAL REPORT 2022

### OUR PURPOSE: CREATING SHARED VALUE

At Dutch Lady Milk Industries Berhad (DLMI), we are driven by our purpose of **Nourishing Our Planet and People in Every Stage of Life**. We remain committed to long-term value creation for all our stakeholders while deploying our six capital inputs: Financial, Manufacturing, Social and Relationship, Natural, Human and Intellectual Capitals to champion responsible business. In the long-term, we aim to create a positive impact on our Planet and People via our business model, strategy and purpose.

### INTEGRATED THINKING

The concept of integrated thinking at DLMI is all about ensuring all decisions related to our core business as well as people, have taken into consideration our global policies and local priorities; key Economic, Environmental, Social and Governance (EES&G) factors; and both financial and non-financial aspects of business performance. This integrated thinking approach is also supported by the principle of materiality, which ensures we are aligned in our resolve across functions to identify and manage most mission-critical issues, leverage opportunities where possible and overcome challenges in the process. The ultimate objective is to address material matters that most impact our business and ability to create shared value.

The material matters included and discussed in this Integrated Annual Report are determined based on our stakeholders' expectations, real and potential risks associated with both internal and external factors of our business, and most importantly, the strategic direction set by the Board of Directors in fulfilling our purpose.

### INTEGRATED REPORTING PROCESS

#### Reporting Frameworks

This maiden Integrated Annual Report is aligned with the following local and international statutory and reporting frameworks:

- International Integrated Annual Report <IR> Framework\*
- Bursa Malaysia Main Market Listing Requirements (MMLR)
- Companies Act 2016
- Malaysian Code on Corporate Governance (MCCG) by Securities Commission Malaysia
- Malaysian Financial Reporting Standards (MFRS)
- Financial Services Act 2013
- Global Reporting Initiative (GRI) Standards\*
- Sustainability Accounting Standards Board or SASB Standards\*

\* Please note that the structure and format of this report has been planned to support:

- Our 3-year journey to improve quality of reporting and enhance the level of compliance to <IR> Framework as well as alignment with Taskforce on Climate-Related Financial Disclosures (TCFD), Sustainability Accounting Standards Board or SASB and GRI Standards.

### Reporting Integrity

The information in the Integrated Annual Report is presented by the respective functional teams with utmost care to maintain the integrity of the narratives to the best possible extent. The key sections of the report have been reviewed by our external auditor, PwC. In particular, the Statement on Risk Management and Internal Control ("SORMIC") for the financial year ended 31 December 2022 is reviewed by PwC for the purposes of expressing a conclusion whether the SORMIC is prepared, in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers.

The Audited Financial Statements, SORMIC and Audit & Risk Committee report are then reviewed and approved by the Audit & Risk Committee for recommendation to the Board of Directors. After their final review of all the relevant reports, the Board of Directors provided their final approval.

The contents of this report have been reviewed by the following independent auditors and verification companies:

Activity	Review Body
Consolidated Financial Statements Audit	PwC
SORMIC	PwC
Audit & Risk Committee Report	PwC
5 Year Financial Summary	PwC

### DLMI'S MAIDEN INTEGRATED ANNUAL REPORT 2022


#### Scope and Boundary

DLMI's Maiden Integrated Annual Report 2022 covers our financial and non-financial performance for the period of 1 January 2022 to 31 December 2022, unless stated otherwise. This reporting boundary covers all our operations and activities in Malaysia. Our intention through this report is to provide our stakeholders a complete, fair and balanced assessment of our financial and non-financial performance, near-term to long-term strategic priorities, material matters, and key risks and opportunities - all of which catalyse our efforts to create value for our multiple stakeholders.

 Refer to pages 7-12 of this report.

**Integrated Enterprise Risks**

We take a holistic view of risks to consider our dependence and influence on various EES&G factors in our key operating market Malaysia. Guided by our global policies and local priorities, our approach is to focus on near-term risks, without losing visibility of long-term risks that are critical to shaping resilient business and growth plans. In keeping with this, our attempt has been to map our risk management approaches to various material matters and strategies included throughout this report.

 Refer to page 46 of this report.

**Forward-Looking Statements**

We may have included limited forward-looking statements in relation to our emerging focus areas, future priorities, strategies and growth opportunities. However, these may be challenged based on our evolving business and regulatory landscape, and factors that may be external to our business and beyond our direct control. The intent of any forward-looking statements included in this report is to apprise our stakeholders on our appetite and potential for meaningful growth. Hence, these should not be taken as conclusive or as statements reviewed by auditors.

**NAVIGATION TOOLS**

**Capitals**



Financial Strength



Intellectual Capital



Strong Relationships



Talented People



Resilient Infrastructure



Natural Capital

**DLMI's Priority United Nations (UN) Sustainable Development Goals (SDGs)**



**Cross References**



Find more information inside this report



Link to our website

**Material Matters**



Nutrition & Product Responsibility



Innovation & Technology



Responsible Supply Chain



Energy, Water, Waste & Emissions



Recovery & Circularity



Purpose & Culture



Employee Experience



Growth



Farmers & Communities



Social & Economic Continuity

**EES&G Risks Integrated into DLMI's Risk Management Framework**

- Market & External
- Supply Chain & Procurement
- Product Technology & Innovation
- Financial
- Water, Waste & Emissions Management
- People Performance & Productivity
- Internal Policy
- Fraud & Anti-Bribery
- Regulatory & Legal

**Statement from the Board of Directors of Dutch Lady Milk Industries Berhad**

The Board of Directors take full accountability for the integrity of DLMI's Maiden Integrated Annual Report 2022. We acknowledge that attempts have been made to ensure this report addresses most critical material matters and fairly presents DLMI's performance for the year under review.

**Datin Seri Sunita Mei-Lin Rajakumar**  
Chairperson of the Board  
(on behalf of the Board of Directors)

# Mmm Ahh... Sy



\*Helps maintain a good intestinal environment

# Yuk nyer!!!



MS 1500  
1069-01/2004

# HOW WE DEFINE CAPITALS

We recognise the importance of understanding the different forms of capitals that serve as inputs to deliver our business and people outcomes. In keeping with the principles of <IR>, we define the six capitals that are strategic and anchor our financial and non-financial value creation process.



## Financial Strength

Funds that are available for use in the production of goods or the provision of services and investment in other capitals toward future growth. These are raised through business and operations, through debt, equity, and investments.



## Resilient Infrastructure

Our physical infrastructure that allows seamless production of goods or the provision of services, including our factory, office building, equipment and infrastructure.



## Strong Relationships

Our existing and potential relationships with critical stakeholders and the trust we share with them. These are multiple stakeholders to include employees, consumers & business partners, suppliers, regulators, policymakers, local communities and others with whom and for whom we drive our purpose of Nourishing Our Planet and People in Every Stage of Life.



## Natural Capital

Our dependency on natural resources such as water, biodiversity, and eco-system health to deliver our products while creating a symbiotic relationship between business and nature, preserving and conserving environmental integrity.



## Talented People

Our more than 600 strong workforce in Malaysia and nearly 21,000 global talents from FrieslandCampina network, who form the backbone of our business, our performance as well as our potential to achieve and do more. With a Win-Win culture, anchored by values such as agility, accountability, and appreciation, our focus is to respect and grow our people's competencies, capabilities, experience as well as their motivation. Our aspiration is to be among the 'Best Places to Work' in Malaysia.



## Intellectual Capital

Our continuous emphasis on research and development (R&D) and product formulations, supported by over 150 years of global dairy expertise from FrieslandCampina and credible systems, help us to future-proof our market position as well as assure our stakeholders of relevant and value creating solutions.



# OUR STAKEHOLDERS' VALUE PROPOSITIONS

Stakeholders' expectations and interests are always at the core of any value creation process. Mechanisms to effectively engage stakeholders are necessary. What is more critical is our response mechanism, where we meaningfully address issues that are most material for our stakeholders.



## CONSUMERS

### Engagement Platform

- Annual Focus Groups & Surveys
- Customer Service Desk (Careline, Social Media)

### Material Topics

- Nutrition & Product Responsibility

### Issues & Concerns

- Safety
- Quality
- Nutrition
- Accessibility
- Affordability
- Waste

### How We Create Value

- Undertake R&D to continuously improve product formulations to address nutritional needs and issues
- Create a portfolio of affordable products and ensure a strong trade network for better reach

### Key Drivers of Shared Value

- R&D
- Product Development
- Product Advocacy

### How We Measure Value

- Compliance with Global Nutritional Standards (GNS)
- Household Penetration

### Highlights 2022



**64,959 packs**  
distributed towards benefitting children and B40 community members



**96.4%** of consumer dairy products compliant with GNS

# OUR STAKEHOLDERS' VALUE PROPOSITIONS



## CUSTOMERS & BUSINESS PARTNERS

<p><b>Engagement Platform</b></p> <ul style="list-style-type: none"> <li>Quarterly Customer/ Distributors Top to Top Business Review</li> <li>Annual Distributors Conference &amp; Retailers Joint Business Plan (JBP)</li> </ul>	<p><b>Material Topics</b></p> <ul style="list-style-type: none"> <li>M1 Nutrition &amp; Product Responsibility</li> <li>M3 Responsible Supply Chain</li> </ul>	<p><b>Issues &amp; Concerns</b></p> <ul style="list-style-type: none"> <li>Quality</li> <li>Profitability</li> <li>Price Pressure</li> <li>Differentiation</li> <li>Waste</li> </ul>
<p><b>How We Create Value</b></p> <ul style="list-style-type: none"> <li>Share insights by brainstorming together</li> <li>Share our common strategy to maximise impact for Win-Win proposals</li> </ul>	<p><b>Key Drivers of Shared Value</b></p> <ul style="list-style-type: none"> <li>Distribution</li> <li>Sales</li> <li>Profitability</li> </ul>	<p><b>How We Measure Value</b></p> <ul style="list-style-type: none"> <li>Retailer Dashboard</li> <li>Distributors Scorecard</li> </ul>

### Highlights 2022



**100%**  
of distributors\* achieved  
**80%** performance score

\* Ambient products in non-chilled format category only

 **EMPLOYEES**

**Engagement Platform**

- Annual Employee Engagement Surveys
- Half-Yearly Pulse Surveys
- Bi-monthly Townhalls
- Monthly and Quarterly Management Check-Ins
- Quarterly Focus Group Discussions
- New Ways of Work: Continued hybrid work arrangements

**Material Topics**

- M6** Purpose & Culture
- M7** Employee Experience
- M8** Growth

**Issues & Concerns**

- Vertical and Horizontal Growth Opportunities
- Occupational Safety, Health & Wellbeing

**How We Create Value**

- Ensure robust talent management process
- Create awareness on psychological safety and mental health
- Ensure employees have equitable medical benefits
- Drive employee engagement and communication
- Promote DLMI's "I AM SAFE" policy and create a culture of safety and wellbeing

**Key Drivers of Shared Value**

- Career and Development Coaching Skills Management
- Performance and Talent Management Guidelines
- Well-Being and Employee Benefits Benchmarking and Best Practices
- Employee Engagement Initiatives and Events
- Free On-Site Health Check-Up for Employees

**How We Measure Value**

- Psychological Safety Awareness Sessions
- Career Coaching Workshops
- Employee Benefit Review
- Quality of Personal Development Plan
- Employee Engagement and Feedback Score

**Highlights 2022**



**>97%** line managers trained on psychological safety



**81%** fulfilled quality development plans (middle management)



**>90%** line managers trained on career coaching



**81%** employee engagement index



**8** certified psychological safety first aiders



**29** employee engagement activities



Launch of **digital employee handbook**



**113** employees went through on-site medical health screening

# OUR STAKEHOLDERS' VALUE PROPOSITIONS



## SUPPLIERS

<p><b>Engagement Platform</b></p> <ul style="list-style-type: none"> <li>Annual Supplier Performance Evaluations</li> <li>Monthly Supplier Project Interactions</li> </ul>	<p><b>Material Topics</b></p> <p>M3 Responsible Supply Chain</p>	<p><b>Issues &amp; Concerns</b></p> <ul style="list-style-type: none"> <li>Opportunities for Local Suppliers</li> <li>Fair Terms of Engagement and Payment</li> </ul>
<p><b>How We Create Value</b></p> <ul style="list-style-type: none"> <li>Ensure we prioritise local suppliers where possible</li> <li>Ensure we are fair and transparent in our dealings with suppliers</li> </ul>	<p><b>Key Drivers of Shared Value</b></p> <ul style="list-style-type: none"> <li>Supplier Engagement</li> <li>Fair and Transparent Supplier Contracts</li> </ul>	<p><b>How We Measure Value</b></p> <ul style="list-style-type: none"> <li>Contractual Agreements with Local Suppliers</li> <li>% Spends on Local Suppliers</li> </ul>

### Highlights 2022



**80%** of DLMI suppliers have contractual agreements



**82%** or **RM539.4 million** in annual spends on local suppliers\*

\* % of annual spend excluding FrieslandCampina network suppliers



## REGULATORS & POLICYMAKERS

Engagement Platform	Material Topics	Issues & Concerns
<ul style="list-style-type: none"> <li>Annual Stakeholders Consultations</li> <li>Monthly and Quarterly Feedback and Advisory</li> <li>Annual Round Table Discussions</li> <li>Annual Consultation Sessions</li> </ul>	<ul style="list-style-type: none"> <li>M1 Nutrition &amp; Product Responsibility</li> <li>M9 Farmers &amp; Communities</li> <li>M10 Social &amp; Economic Continuity</li> </ul>	<ul style="list-style-type: none"> <li>Food Safety, Quality &amp; Nutrition</li> <li>Sustainable Local Dairy Farms Development</li> <li>Socio-Economic Wellbeing and Welfare of Local Dairy Farmers and its Communities</li> <li>Good Governance</li> <li>Halal Assurance System &amp; Management</li> <li>Fiscal Policies to Address Non-Communicable Diseases</li> </ul>

How We Create Value	Key Drivers of Shared Value	How We Measure Value
<ul style="list-style-type: none"> <li>Undertake R&amp;D to continuously improve product formulations to address nutritional needs whilst ensuring compliance</li> <li>Introduce affordable products and ensure a strong trade network for better reach</li> <li>Develop local dairy farmers through dairy farming knowledge and skills transfer</li> <li>Provide platform for local dairy farmers to sell their raw fresh milk</li> <li>Operate to principles of good governance, integrity, anti-corruption and business resilience</li> <li>Establish internal governance of Halal practices, policy and awareness</li> </ul>	<ul style="list-style-type: none"> <li>Skills and Knowledge Transfer to Local Dairy Farmers on Good Dairy Farming Practices.</li> <li>Purchase Raw Fresh Milk from Local Dairy Farms.</li> <li>Compliance to Fiscal Policy, and New Food Regulations, Amendments, Legislations and Guidelines.</li> </ul>	<ul style="list-style-type: none"> <li>Number of Farmers Trained</li> <li>Volume of Raw Milk Purchased from Local Farms</li> <li>Compliance with No Major Complaints</li> </ul>

### Highlights 2022



**237** farmers trained through Farmer2Farmer programme and local dairy development team



**100% compliance** to applicable fiscal policies in 2022



**4.35 million** litres of raw fresh milk purchased from local farms



**Zero major complaints** towards DLMI products, promotional material and activities

# OUR STAKEHOLDERS' VALUE PROPOSITIONS




## MEDIA

### Engagement Platform

- Media Engagement and Outreach

### Material Topics

-  Nutrition & Product Responsibility

### Issues & Concerns

- Continuous and Reliable Information Pertaining to DLMI and the Local Dairy Industry

### How We Create Value

- Channel value information to media regularly
- Drive greater awareness on the goodness of dairy and DLMI's role in nourishing Malaysians

### Key Drivers of Shared Value

- Positive Engagement
- Information Integrity

### How We Measure Value

- Quality of Coverage on DLMI and Issues Related to the Dairy Industry
- Quality of Coverage on Nutrition and Goodness of Milk

## Highlights 2022



Media coverage valued at over **RM4 million**



**Built strong rapport** with editors and journalists

# LUCKY LUCHEE



# DLMI VALUE CREATION BUSINESS MODEL

## OUR RESOURCES...

# OUR PURPOSE: NOURISHING OUR PLANET AND PEOPLE IN EVERY STAGE OF LIFE

## INPUTS

### IN TO OUR BUSINESS & PEOPLE

#### FINANCIAL STRENGTH



Strong balance sheet with invested capitals and total asset value of RMB44.2 million, equity of RM397 million and market capitalisation of RML9 billion

#### RESILIENT INFRASTRUCTURE



Approx. 131,900 m<sup>2</sup> of state-of-the-art Production Facility @ Bandar Enstek, with planned transition to IR4.0-compliant facility with double capacity by 2024

#### TALENTED PEOPLE



1600 workforce in Malaysia and nearly 21,000 talent with FrieslandCampina Group in 32 Countries (branches)

#### STRONG RELATIONSHIPS



3.7 million\* households annually and 1700 local suppliers in Malaysia

\* Kantar Worldpanel Malaysia - Household Panel, MAT P13 2022

#### INTELLECTUAL CAPITAL



Bringing to market trademarked brands and winning recipes with high nutritional value and championing issues such as dairy development and Diversity, Equity and Inclusion (DEI) through established knowledge and skills-transfer platforms

#### NATURAL CAPITAL



512,497 litres of water use and 66,537 GJ of energy use

\* Production Facility @ Petaling Jaya only

### Material Matters:

- M1 Nutrition & Product Responsibility
- M2 Innovation & Technology
- M3 Responsible Supply Chain
- M4 Energy, Water, Waste & Emissions
- M5 Recovery & Circularity
- M6 Purpose & Culture
- M7 Employee Experience
- M8 Growth
- M9 Farmers & Communities
- M10 Social & Economic Continuity

### EES&G Risks Integrated into DLMi's Risk Management Framework

- Market & External
- Supply Chain & Procurement
- Product Technology & Innovation
- Financial



Underpinned by our Robust Risk Management Framework (with annual appraisal of near-term risks & visibility of long-term risks)



## ...OUR VALUE CREATION

OUR  
STAKEHOLDER  
PROPOSITIONSCUSTOMER  
VALUE  
PROPOSITION

Fulfill nutritional needs and expectations, contributing to a healthy and thriving society

EMPLOYEE  
VALUE  
PROPOSITION

Catalyse people growth, welfare and well-being through principles of diversity, equity, and inclusion

SUPPLIER VALUE  
PROPOSITION

Establish a symbiotic relationship to support mutual aspirations and growth

INVESTOR VALUE  
PROPOSITION

Build a sustainable business with strong resilience, positive returns, and shared responsibility

SOCIETY VALUE  
PROPOSITION

Share knowledge, skills, and solutions that will help farmers and communities lead thriving lives

## ACCOUNTABILITY

## Our Internal Controls

## GOVERNANCE &amp; LEADERSHIP

- **Focus:** Review operational effectiveness and strategic relevance of internal controls and risk management mechanisms
- **Accountability:** Management team
- **Controls:** Internal and external audits

## KPIs &amp; SCORECARDS

- **Focus:** Ensure adequate measures to identify, monitor, measure, and report short to medium to long term business and people priorities and outcomes
- **Accountability:** Board of Directors, Managing Director, Management team
- **Controls:** Internal business reviews

## CORE VALUES

- **Focus:** Promote win-win culture & AAA values (Agility, Accountability, & Appreciation)
- **Accountability:** Functional teams
- **Controls:** Organisational health index and people engagement

## KEY POLICIES

- **Focus:** Embrace COMPASS - our guide to operating in alignment with core values and business objectives, with integrity and for efficiencies beyond compliance
- **Accountability:** Functional teams
- **Controls:** Internal reviews and people engagement

## IMPACT

## Our Focus Areas 2022

Better  
Nutrition

Refer to pages 63-65 of this report.

Better  
Sourcing

Refer to pages 66-67 of this report.

Better  
Climate

Refer to pages 68-69 of this report.

Better  
Packaging

Refer to pages 70-71 of this report.

Better  
People

Refer to pages 72-75 of this report.

Better  
Security

Refer to pages 76-77 of this report.

Better  
Governance

Refer to pages 78-79 of this report.

Water, Waste & Emissions Management

People Performance & Productivity

Internal Policy

Fraud & Anti-Bribery

Regulatory & Legal



# STRONG START

## PROTEIN & CAL





**T WITH  
L CIUM**



**STRONG ME,  
STRONGER US**



# OUR BUSINESS & PEOPLE

## OVERVIEW OF DLMI

DLMI is a subsidiary of Royal FrieslandCampina, one of the world's largest dairy cooperatives. Together with member dairy farmers, Royal FrieslandCampina manages the entire value chain: from grass to glass. DLMI is a multinational company with a strong local advantage, constantly evolving to strengthen our position as the leading dairy company in Malaysia.

### OUR PURPOSE: NOURISHING OUR PLANET AND PEOPLE IN EVERY STAGE OF LIFE

As Malaysia's leading dairy company, we are committed to Nourishing our Nation with trusted, sustainable and Halal dairy nutrition for now and generations to come. We continue to support the national health agenda, whilst striving to improve the nutritional status of Malaysians.



**RM1.3 billion**  
2022 revenue



**Brand of the Decade & No. 1 Most Chosen Brand**  
in the Dairy Category\*

\* KANTAR's Brand Footprint 2022



**14 million**  
estimated annual consumers



DDP has produced **42 million** litres of fresh milk from 2011 - 2022

## LOCAL LEADERSHIP

**59**

YEARS



of established credibility and consumer mindshare in Malaysia

**>50**

YEARS



of implementation of Halal Compliance System

**#1**



Leading dairy company in Malaysia by Market Value (Nielsen Retail Audit Dec 2022)

**73%\***

of liquid milk category shoppers buy Dutch Lady

\* Kantar Worldpanel Malaysia - Household Panel, MAT P13 2022


Partnering with

**>400**  
Local Farms


**>700**  
Local Suppliers

**>600**  
Full-Time Employees (Malaysia)



 **131 million** packs sold in 2022

 **92.5%** consumer dairy products packaging recyclable-all materials

 **214 million** packs distributed under the School Milk Programme since 2011

STEWARDSHIP

**DLMI Brands** in Malaysia



Market Volume Share 2022 as per Nielsen Retail Audit December 2022

 **Liquid milk**  
DLMI **40.2%**

 **Formula & toddler nutrition**  
DLMI **18.1%**

# Our Journey – Corporate Milestones



# 1963





# 2022

The Legacy Continues...



# Our Journey – Corporate Milestones



~ OUR AWARDS ~

## 1963

Sweetened Condensed Milk plant was built and Pacific Milk Industries Bhd was formed



## 1968

Became first milk company to be listed on local Stock Exchange



## 1975

Started UHT and Modified Baby Food production. Company's name changed to Dutch Baby Milk Industries

## 1983

Dutch Lady Milk Industries Berhad (DLMI) partnered with the Ministry of Education for the inaugural School Milk Programme

## 1984

Dutch Baby brand name changed to Dutch Lady



## 1986

Entered pasteurised milk market segmentation

## 1988

An adjacent piece of land was acquired to further expand the factory's capacity

DLMI is the first to introduce Formulated Milk Powder for children in Malaysia



## 2008

Began production of 0% Fat Drink Yoghurt and Ready To Eat Yoghurt

DLMI established the Dairy Development Programme (DDP) to improve productivity and ensure the sustainability of the dairy industry



## 2009

Introduction of DLMI logo



## 2010

FrieslandCampina initiated the Southeast Asia Nutrition Survey (SEANUTS) to gain insights into the nutritional status and dietary intake of children between the ages of 6 months to 12 years in 4 countries including Malaysia



## 2011

DLMI relaunched its Growing Up Milk with 5xDHA



DLMI joined FrieslandCampina to celebrate World Milk Day to recognise the importance of milk as part of a healthy and balanced diet



## 2012

Launch of Dutch Lady Chocolate Drink





# 2013

Celebrated DLMI's 50<sup>th</sup> Anniversary



DLMI established the Farmer2Farmer Programme (F2F) to help local farmers to improve the sustainability of milk supply

DLMI is the first Company to install a SIG Combibloc Malaysia Sdn. Bhd. (SIG) Aseptic Beverage Filling Machine CFA 124 in Malaysia with speed of 24,000 packs or 1,000 cartons per hour



# 2014

Awarded Company of the Year 2014 by The Edge Billion Ringgit Club

In partnership with the Ministry of Education, DLMI celebrated World School Milk Day for the very first time in Malaysia to highlight the importance of drinking milk among school children



# 2018

Introduced 16 products under the Healthy Choice Logo (HCL) initiative by the Ministry of Health



Awarded Graduate's Choice Award 2018

# 2019

A year of innovation: Launch of +Protein, Kurma, Juicy Milk Strawberry & Orange and RM1 pack

Won The Loyalty & Engagement Award 2019 for Friso Gold

Clinched Malaysia Media Award 2019

Won Putra Brand Award 2019 (Gold)

Won Marketing Excellence Award Malaysia 2019

DLMI collaborated with YB Ahmad Fahmi bin Mohamed Fadzil to launch the "Program Cakna Susu" to address the issue of malnutrition amongst the urban poor in the Lembah Pantai constituency

DLMI purchased the fastest Aseptic 1 litre Beverage Filling Machine CFA 312 in Malaysia from SIG with the capability of 12,000 packs or 1,000 cartons per hour



# 2020

Acquired 32.59 acres of industrial land in Bandar Enstek for RM59.79 million

Improved recipes with the latest revised requirements under the Healthy Choice Logo standard and refreshed new pack designs



Launch of Dutch Lady MaxGro and Juicy Milk Pomegranate

Won The APPIES Award 2020

Awarded Anugerah Rakan Industri 2020 by Universiti Kebangsaan Malaysia

# 2021

DLMI signed a Memorandum of Collaboration (MoC) with the Department of Veterinary Services Malaysia (DVS)



Awarded Motherhood Choice 2021-Best Premium Cow's Milk Formula

Won The Asian Parent Award 2021-Best Growing Up Formula Stage 3 Friso

Won Employee Experience Awards Malaysia 2021



Site visit by Negeri Sembilan Chief Minister at DLMI's under construction facility at Bandar Enstek

DLMI celebrated FrieslandCampina's 150<sup>th</sup> Anniversary



# 2022

Appointed Seremban Engineering Berhad (SEB) as the main contractor to build DLMI@Enstek

Launch of Juicy Milk Lychee, Vanilla & Cookies & Cream 180ml and Signature CANS

Won KANTAR's Brand Footprint 2022: Brand of the Decade & No. 1 Most Chosen Brand in the Dairy Category

The results of the second South East Asian Nutrition Surveys (SEANUTS II) was announced and highlighted the triple burden of malnutrition amongst Malaysian children



# The Legacy Continues...



# CORPORATE INFORMATION



## BOARD OF DIRECTORS

### CHAIRPERSON

**Datin Seri Sunita Mei-Lin Rajakumar**

Independent Non-Executive Director  
(appointed 27.02.2019)

### DIRECTORS

**Ramjeet Kaur Virik**

Non-Independent Executive Director  
Managing Director  
(appointed 02.07.2021)

**Saw Chooi Lee**

Senior Independent Non-Executive Director  
(appointed on 01.01.2014 and redesignated to Independent Non-Executive Director on 15.01.2020)

**Corine Danielle Tap**

Non-Independent Non-Executive Director  
(appointed 01.01.2023)

**Dato' Dr. Rosini binti Alias**

Non-Independent Non-Executive Director  
(appointed 16.03.2018)

**Tengku Nurul Azian binti Tengku Shahrman**

Independent Non-Executive Director  
(appointed 25.06.2018)

**Jean Serge Krol**

Non-Independent Non-Executive Director  
(appointed 19.07.2019)

**Darren Kong Kam Seong**

Independent Non-Executive Director  
(appointed 14.04.2021)

### COMPANY SECRETARY

**Katina Nurani binti Abd Rahim**  
Licensed Secretary  
(L.S. No. 9652)  
SSM Practising Certificate No. 201908001190

### AUDIT & RISK COMMITTEE

#### CHAIRPERSON

**Tengku Nurul Azian binti Tengku Shahrman**

#### MEMBERS

**Saw Chooi Lee**  
**Darren Kong Kam Seong**  
**Dato' Dr. Rosini Alias**  
**Jean Serge Krol**

### NOMINATING & REMUNERATION COMMITTEE

#### CHAIRPERSON

**Saw Chooi Lee**

#### MEMBERS

**Tengku Nurul Azian binti Tengku Shahrman**  
**Darren Kong Kam Seong**  
**Corine Danielle Tap**

### REGISTERED OFFICE

Level 5, Quill 9,  
112, Jalan Prof. Khoo Kay Kim  
46300 Petaling Jaya  
Selangor Darul Ehsan  
Telephone : 03-7953 2600  
Facsimile : 03-7953 2700

### REGISTRAR

#### BOARDROOM SHARE REGISTRARS SDN BHD

12<sup>th</sup> Floor, Menara Symphony  
No. 5, Jalan Prof. Khoo Kay Kim  
Seksyen 13  
46200 Petaling Jaya  
Selangor Darul Ehsan  
Telephone : 03-7890 4800  
Facsimile : 03-7841 8151

### WEBSITE

[www.dutchlady.com.my](http://www.dutchlady.com.my)

### INVESTOR RELATIONS & ENQUIRIES

**Kai de Klerk**

Finance Director  
[finance.dept@frieslandcampina.com](mailto:finance.dept@frieslandcampina.com)

### STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia  
Securities Berhad  
Stock Code: DLADY 3026

### AUDITORS

#### PRICewaterhouseCOOPERS PLT (LLP0014401-LCA & AF 1146)

Chartered Accountants  
Level 10, 1 Sentral, Jalan Rakyat  
Kuala Lumpur Sentral  
50706 Kuala Lumpur, Malaysia

### PRINCIPAL BANKERS

#### PUBLIC BANK BERHAD

12, Jalan 14/14  
46100 Petaling Jaya  
Selangor Darul Ehsan

#### CITIBANK BERHAD

Level 45, Menara Citibank  
No. 165 Jalan Ampang  
50450 Kuala Lumpur

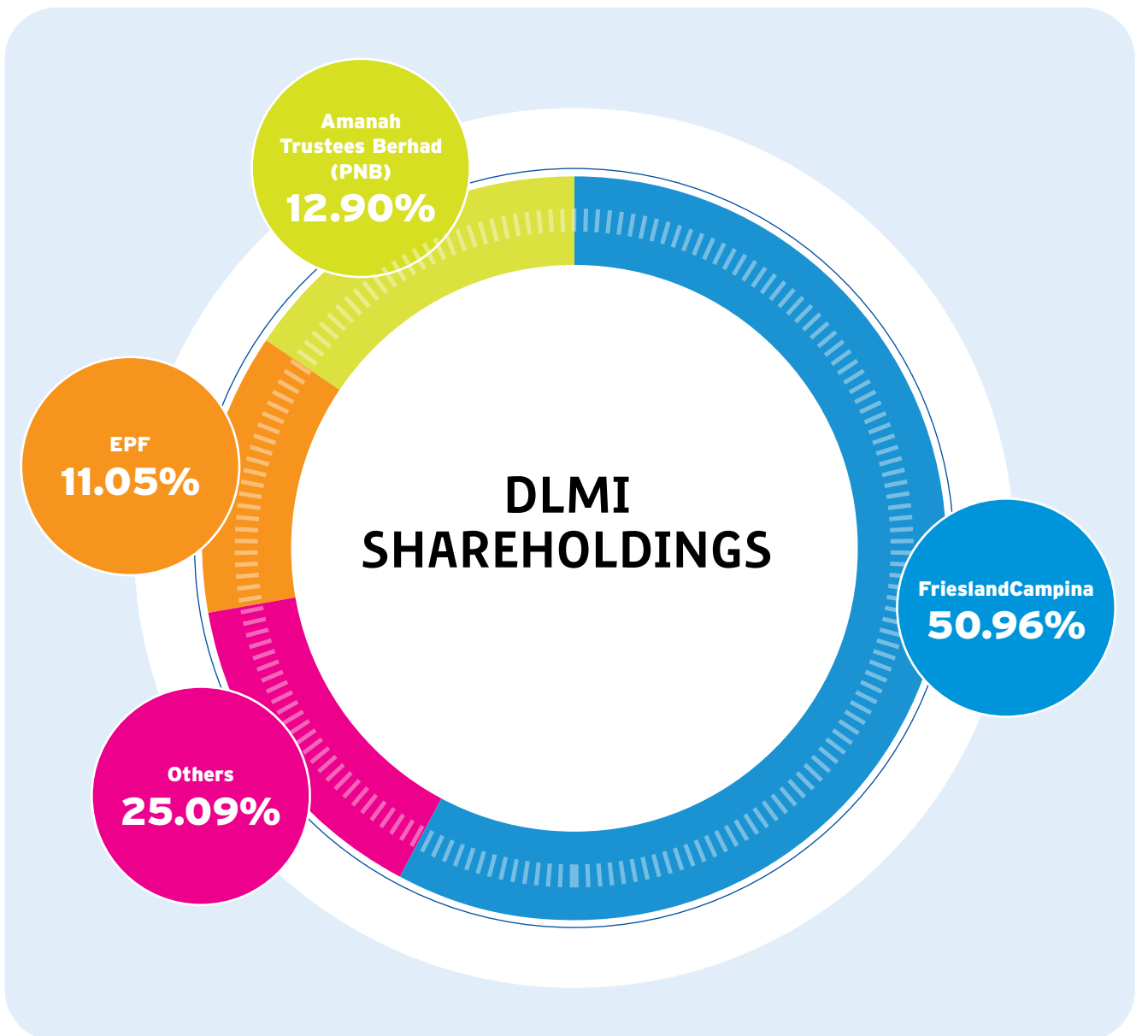
#### MALAYAN BANKING BERHAD

18A, Jalan 14/14  
46100 Petaling Jaya  
Selangor Darul Ehsan

# ORGANISATIONAL STRUCTURE



**Royal FrieslandCampina N.V.**





# THE SMA CHOICE

**DUTCH LADY**

**4-6 TAHUN**

**1-3 TAHUN**

**5X DHA**

**ABCDEF**

MS 1500:2009  
1069-012009



MS 1500:2009  
1069-012009

# RTER

High  
in  
Protein

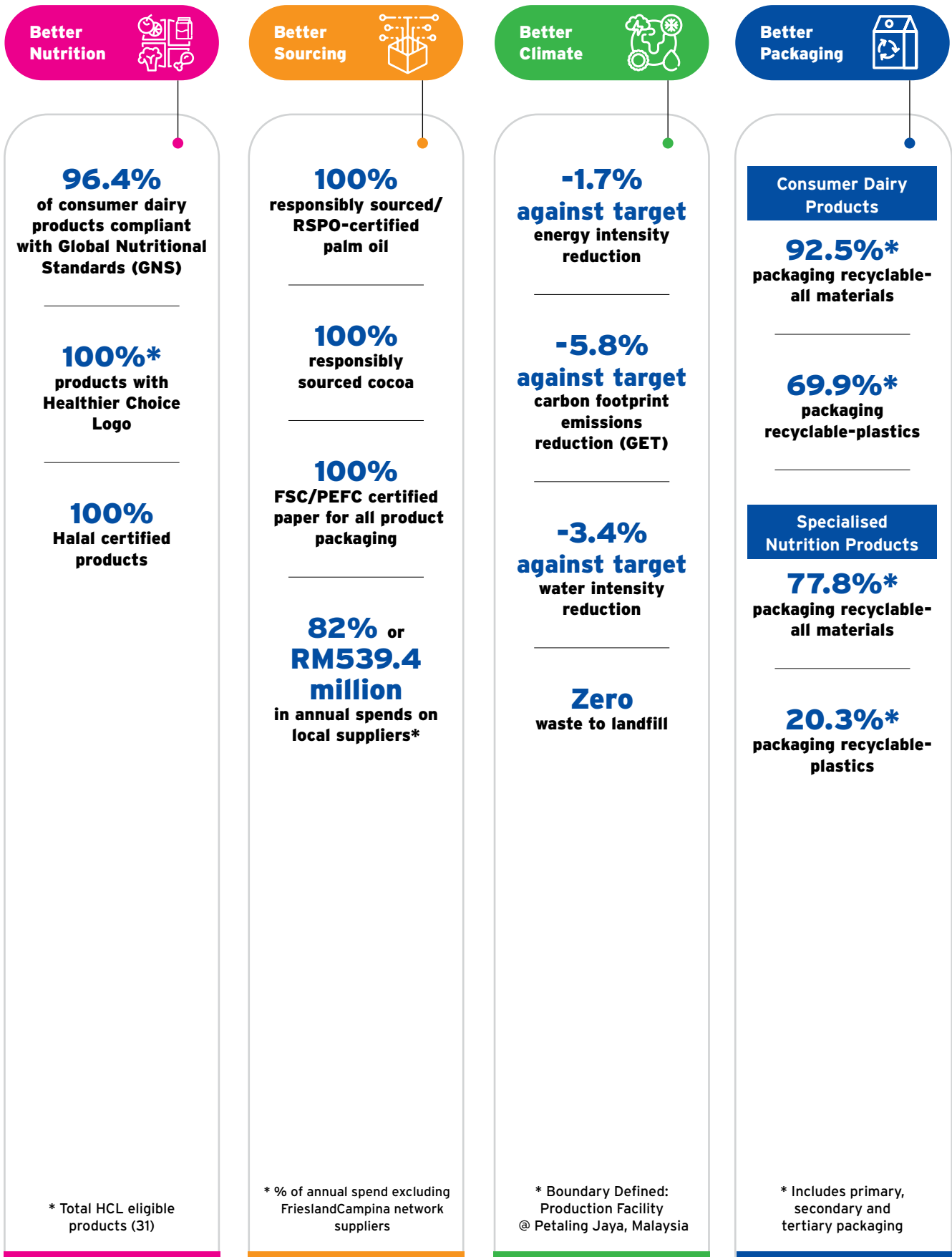
5X  
DHA\*

High in  
Vitamins  
A, C, D, E



\*5X DHA: Compared to previous formulated milk powder for children formulation (Year 2009)

# 2022 PERFORMANCE HIGHLIGHTS



**Better People**



**63%**  
of board positions,  
44% management  
team & 51% executive  
positions held by  
women

**81%**  
score on engagement  
index vs 77% in 2021  
and 76% external  
benchmark

**20.8**  
average training  
hours per employee  
vs 12.3 hours per  
employee in 2021

**0.12**  
lost time  
accident rate

**29**  
employee  
engagement activities

**97%**  
line managers trained  
on psychological safety

**81%**  
fulfilled quality  
development plans  
(middle management)

**11.2%**  
attrition vs industry  
average 13%

**Better Society**



**4.35 million**  
litres of raw fresh milk  
purchased from  
local farms

**237**  
farmers benefitted  
from Farmer2Farmer  
programme to advance  
sustainable farming  
practices

**64,959 packs**  
distributed  
towards benefitting  
children and B40  
community members

**214 million**  
packs distributed  
under the School Milk  
Programme since 2011

**Better Governance**



**Company-wide  
refresher & 3  
training sessions**  
for new hires  
on MACC corporate  
liability provision

**Company-wide  
communication**  
on grievance and  
whistle blowing  
platform: Speak Up

**Company-wide  
roll-out of  
Compass toolkits**  
to promote awareness  
and adoption of key  
policies

**Compass training  
for business  
partners**  
- main greenfield  
contractors with focus  
on anti-corruption,  
safety and human  
rights



**Financial  
Highlights  
2022**



**Revenue  
RM1.3  
billion**



**Adjusted  
operating profit  
RM114.2  
million**



**Net profit  
RM46.3  
million**



# MaxGro

# High Optimal



\*High In Nutrients: High Protein, Calcium, Iron, Magnesium, Vitamin A, D, E, B1, B2, B3, B6, B12 and C content.

\*80% Daily Nutrients: Meeting at least 80% of Malaysia Recommended Daily Nutrient Intake (Malaysia RNI 2017) for selected nutrients such as Calcium, Phosphorus, Iron, Magnesium, Zinc, Vitamins A, D, E, K, B1, B2, B3, B6, B12, and C.

^9EAA: 9 Essential Amino Acids



# #1 In Nutrients

## Optimal Growth For Your Child



Scan for more info

# CHAIRPERSON'S PERSPECTIVE

We continued to be guided by FrieslandCampina's global focus on **people safety, primary processes, and sustainability**



We remained committed to driving principles of **responsibility, accountability, awareness, resilience, and transparency**



Our continuous efforts are to **provide accessible, affordable, quality, Halal, and sustainable dairy nutrition**



Dear Shareholders & Stakeholders,

On behalf of the Board of Directors, I am pleased to share the Company's maiden Integrated Annual Report and Audited Financial Statements for the financial year ended 31 December 2022.

**DATIN SERI SUNITA  
MEI-LIN RAJAKUMAR**

Chairperson

66

**During the year, we emerged stronger, more resilient, and more focused than ever. Despite the unfavourable market dynamics, including inflationary pressures, we strived to deliver positive performance on the back of strong demand and our agile ways of work. We continued to strengthen our sustainability risk and governance frameworks, while planning our 2030 implementation roadmap. The year was about resilience and responsibility as we retained our leading market position.**

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#### RESILIENT LEADERSHIP

The macro-economic environment was less than favourable in 2022. The supply chain disruptions, the global hike in inflation and of course, the fast-evolving regulatory landscape in relation to sustainability posed new challenges. As a business, we had to take some difficult and prudent decisions to keep our products accessible and affordable, our people motivated and in good health, and our stakeholders informed of our planned growth and responsible choices. With our agile ways of work, we were able to leverage our FrieslandCampina network to streamline supply, shift our focus to psychological health of our employees, and demonstrate resilient leadership to deliver the planned growth.

We continued to be guided by FrieslandCampina's global focus on people safety, primary processes, and sustainability, while making responsible choices that will not only future-proof but also deliver meaningful growth for both our business and people.

#### GOOD GOVERNANCE

Governance goes beyond the rules of compliance and code of conduct. At DLMI, we remained committed to driving principles of responsibility, accountability, awareness, resilience, and transparency. These are crucial in steering prudent and effective risk management practices, both near- and long-term, that will preserve and enhance enterprise value.

In 2022, the Board of Directors (BoD) deliberated and approved an Integrated Risk Management Framework. This is premised on an annual appraisal of near-term risks that must be prioritised, while ensuring full visibility of long-term EES&G risks that could compromise our position and ability to continuously deliver shareholder and stakeholder value.

At FrieslandCampina, the Board Charter refers to a very important aspect of business - long-term value creation, and in this context, in 2022, we revisited and revised our Board Charter at DLMI. We are now more explicit on what long-term value creation means, also with regards to EES&G risk monitoring and management, which will drive value for both shareholders and multiple stakeholders to the business. Setting the tone at the Board-level is the first of many critical steps to getting our business case and sustainability governance right.



#### **We revisited and revised our Board Charter**

**to be more explicit on what long-term value creation means to us and our stakeholders at DLMI**

### RESPONSIBLE BUSINESS

As a leading dairy company with nearly six decades of proven track record in Malaysia, our continuous efforts are to provide accessible, affordable, quality, Halal, and sustainable dairy nutrition. In doing so, one of the critical aspects to examine is the life cycle as well as the ecological footprint of our milk products. The challenge however is to address the perception or inaccurate assumption that animal products have higher carbon footprint compared to plant-based.

At FrieslandCampina, we believe that the focus should not be on carbon footprint alone. Dairy, when produced responsibly, will always make a tremendous contribution to the necessary, affordable nutrients for a growing world population. We believe that dairy is 'the gold standard' from the perspective of nutritional value and affordability, which should be important considerations. Our role in Nourishing the Nation is also our positive handprint and should be juxtaposed against the carbon footprint.


These conversations supported with scientific evidence are critical for the dairy sector and we take such deliberations seriously to accelerate our EES&G integration efforts. For the first time at the global level, a Board Member, Berndt Kodden has assumed the role of our Global Chief Sustainability Officer. With nearly 3 decades of experience with FrieslandCampina, Berndt will also be steering DLMI's sustainability journey - one that is aligned to our global commitments and local priorities.

During the year, we also reassessed and revalidated our material matters and aligned DLMI's sustainability focus areas with global pillars of Better Nutrition, Better Sourcing, Better Climate, and Better Packaging, with additional pillars of Better

People, Better Society, and Better Governance. This alignment is critical to determine targets, aggregate our positive impact, as well as to address market-specific risks while meeting global sustainable development goals.

We also established a Sustainability Steering Committee that has been operationalised with effect from January 2023. The primary purpose is to lead strategy formulation as well as EES&G integration approaches by supporting various functional teams. The committee is chaired by the Managing Director, with quarterly updates to the Board on key developments and potential risks and opportunities for meaningful deliberations and decisions.

Starting from the 2022 reporting cycle, we have embarked on a 3-year journey to transition and adopt Integrated Reporting principles. This would include a more connected approach to reporting sustainability performance in keeping with Bursa's Sustainability Guidelines as well as our 3-year journey to align with GRI and SASB standards.

 For more information on our sustainability focus areas and performance, refer to pages 52-79 of this report.

### SHAREHOLDER AND STAKEHOLDER VALUE

As a business, we are as committed to creating stakeholder value as we are in delivering shareholder returns.

Despite the many challenges, DLMI posted a 18% revenue growth to RM1.3 billion, resulting in adjusted operating profit of 114.2 million. For the year ending 31 December 2022, a total of RM32 million was paid out as standard interim dividends to shareholders. This represents a 69% distribution of the Company's net profit attributable to shareholders.

For our **employees**, we invested in a Psychological Safety programme to enhanced trust and connectedness for our people. Our aspiration is to create a safe space to speak up, discuss, and resolve aspects that affect the morale, mental health, and motivation of our people to remain productive and deliver high performance. Beyond participation in the programme, we aspire to create a pool of certified Psychological First Aiders among our employees and introduce holistic well-being assessment. We also maintained flexible and remote working arrangements to allow work-life balance and improve focus and agility at work.



**We established a  
Sustainability  
Steering  
Committee  
in 2022, effective from  
January 2023**



**We reach out to more than  
3.7 million\*  
households annually**

\* Kantar Worldpanel Malaysia - Household Panel, MAT P13 2022



**We introduced a  
new can format  
for young adults to meet  
their lifestyle choices and  
convenience**

For our **consumers**, our priority was to keep the products accessible and affordable. We reach out to more than 3.7 million households annually (Kantar Worldpanel Malaysia – Household Panel, MAT P13 2022). During the year, we also looked at introducing a new can format for young adults to meet their lifestyle choices and convenience. We will continue to connect with our consumers and customers to ensure we are meeting their evolving needs and expectations - both in terms of better quality and better nutrition.

For the **industry**, we continued to contribute our knowledge, expertise and resources to promote purpose-led institutions such as the Malaysian Recycling Alliance Berhad or MAREA and CEO Action Network (CAN). With MAREA, we are currently focusing on curb-side waste collection programmes as well as incentivisation of both consumers and recyclers in Malaysia. This will go a long way into addressing the much-needed systemic change to divert waste from landfills. With CAN, we are leading the workstream focused on Diversity, Equity, and Inclusion (DEI), where the effort is to devise a model DEI policy and interventions for member and industry adoption. The idea is to promote the business case beyond gender diversity, with emphasis on principles of equity and inclusion that are critical from organisational and social justice perspectives.

For the **Government**, we continued to serve our mission of "Nourishing our Nation" and supporting national efforts to catalyse dairy development. Through a Memorandum of Collaboration with the Department of Veterinary Services, at DLMi, we continued to engage and champion sectoral issues and promote development of farms, farmers and the ecosystem stakeholders. The scope of the MoC includes 1) exchange and sharing of resources, facilities, data, knowledge, and skills to further mutual interest and agenda and 2) increase knowledge and skills of local dairy farmers through a flagship programme



such as our bespoke Farmer2Farmer, which aims to improve the quality and quantity of raw milk of dairy cows by equipping farmers with sustainable farming practices.

For **suppliers**, we continued supporting sustainable/responsible sourcing of key ingredients such as palm oil and cocoa powder. Besides, we are also making sure to source our primary packaging material from suppliers who source FSC (Forest Stewardship Council)/PEFC (Programme for the Endorsement of Forest Certification) certified paper, which is an assurance of environmentally responsible and socially beneficial forestry practices/standards. Additionally, we championed a Supplier's Contingency Programme which aimed to minimise the risk associated with disruption of supply of materials to allow us to plan ahead and take appropriate steps towards seamless production and continuous access to our products in the marketplace. In 2022, we organised a focus group to engage and understand various challenges faced by our critical suppliers in working with us. Our plan is to strengthen our supplier network and relationships by addressing their topline concerns and improving our terms of engagement and business.

Overall for DLMi and its **partners**, alongside financial performance, we continued to identify opportunities to not just reduce our footprint but also create a positive handprint. For instance, we have initiated plans to improve operational efficiencies

which will reduce our water footprint significantly per litre of milk. Similarly, we are investing in technologies that will optimise features such as rainwater harvesting at our production facility to reduce our water use and water waste.

#### BOARD APPOINTMENTS

There were no changes to the Board in FY2022. Corine Danielle Tap was appointed as Non-independent Non-Executive Director with effect from 1 January 2023. Corine comes with rich industry and sectoral experience and we are confident of the immense value she will bring to Board as well as the business. She replaces Berndt Kodden who resigned as Non-Independent Non-Executive Director of the Board on the same day.

#### ACKNOWLEDGEMENTS

On behalf of the Board of Directors, I wish to express our sincere appreciation to the management team, employees and business partners for their demonstrated resilience and strong support throughout FY2022.

I offer my gratitude to my esteemed Board members for their astute business acumen to help navigate the year's many challenges and deliver another year of positive financial performance.

Working together as one cohesive unit, I am confident of DLMi forging ahead and charting greater milestones in the years ahead.

# MANAGING DIRECTOR'S REPORT



**RAMJEET KAUR VIRIK**  
Managing Director

## DUAL DILEMMA & DAIRY LEADERSHIP

The dynamics of business have changed over the last three years. In 2022, the market continued to perform but with uncertainty. There was no stability in price movements and trade behaviour. Supply chain disruptions affected incoming raw materials and their prices. As a result, supply chain and procurement from business continuity and resilience perspectives

were in the limelight replacing the traditional lead role of commercial. Local and international political and policy contexts made markets even more fragile. Regulatory landscape kept evolving, especially in relation to responsible business conduct and sustainability. Against this backdrop, in our position and approach, we remained cautiously optimistic.




**During the year, we continued to focus on fulfilling the nutritional needs of Malaysians, while striving to build resilient communities and business. With our undivided focus on efficiency and equity principles, our mid- to long-term goal has been to build a sustainable ecosystem. 2022 was all about creating positive value for both our shareholders and critical stakeholders.**



At Dutch Lady Milk Industries Berhad (DLMI), we faced the dual dilemma. First was to keep our products accessible and affordable even with an increase in the price points, mainly due to the unprecedented inflation rate that stood at 8.9% (Euromonitor 2022) globally and 3.3% (Dept. of Statistics Malaysia, FY2022) in Malaysia. Second was related to our survival and winning profitably amid supply chain disruptions and while meeting the consumer demand. We successfully addressed these by:


**CRITICAL CHALLENGE & COLLABORATION**

During the year, we saw the transition of physical environment to digital solutions. This meant, more active consumers in e-commerce space, more technologically empowered and adept systems and processes, and of course, more analytics and digitalisation at play for building a robust business.



absorbing the inflationary costs through optimisation measures to ensure the burden of price increase is only partially transferred to consumers.

At DLMI, in 2022, digitalisation was and will remain one of our priority challenges to tackle. The journey would require us to shift to alternative retail formats and tap new growth from acceleration of digital adoption. During the year, we also focused on deploying IR4.0 (fourth industrial revolution) digital transformation strategies of our manufacturing at our new greenfield factory in Bandar Enstek, which is scheduled to be completed by 2024.



tapping the potential of our critical mass of over 400 local farms and FrieslandCampina's regional and global network to ensure supply of raw materials to meet the demand.

The upgraded technology will bring new skills and opportunity for growth in terms of innovation, improved efficiencies, and overall, sustainability. In developing our state-of-the-art green-field production facility, we are working with experts in the field to improve dairy processing capabilities and energy as well as water efficiencies. For instance, when we fully transition to the new facility, we will be able to reduce water use per litre of milk by 42% and energy by 19% by 2030.

With these agile ways of work, our dairy leadership in Malaysia since 1963 is supported by our brand loyalists across generations. In 2022, we retained our market position as No.1 dairy producer and remained the largest purchaser of local fresh milk.



**#1** In 2022, we retained our market position as **no.1 dairy producer and remained the largest purchaser of local fresh milk**

OUR PURPOSE, PEOPLE, PERFORMANCE & POTENTIAL

PURPOSE




**Nourishing Our Planet and People in Every Stage of Life. This purpose defines our reason for being. It guides our actions and behaviour. This means we aspire to keep our total portfolio nutritious, helping Malaysia and Malaysians meet their nutritional needs whilst also nourishing our employees, suppliers, and rakyat who are critical in driving growth and positioning DLMI as a responsible manufacturing hub in the region.**

In 2022, we saw a step change in our defined and operational approach to sustainability that is closer to our purpose. We examined efficiency and equity as two principles which will steer our EES&G performance. We also adopted the Thriving Framework (Wayne Visser 2020) to examine the systemic issues in our value chain and how our sustainability strategies are positioned to address them in the near to medium to long-term. This is a key milestone that will help us define our planet and people ambitions over the next one year, with clear measurable Board and Management KPIs and a robust business case.



**We examined efficiency and equity as two principles which will steer our EES&G performance**

 For more information on how we are aligning our performance with our purpose, please refer to Sustainability Statement on pages 52-79 of this Integrated Annual Report.


PEOPLE



**People growth leads to business growth. We have seen over the last three years, how the pandemic exposed vulnerability of organisations that fail to prioritise people welfare and wellbeing. The Great Resignation or the Great Reshuffle served as a wakeup call for businesses to pay higher attention to matters such as exploitative and hostile work environments, wage and growth stagnation, and job dissatisfaction amongst other people issues. In this context, it is important to acknowledge that human capital is not just a critical input into business, but it is imminent to drive financial performance and reputational equity.**

At DLMI, people come first. Our efforts in 2022 focused on enhancing flexible remote-work policy and introducing initiatives to create awareness on importance of psychological safety and mental well-being among our people. Our future plans in these two areas are supported by the need to improve work-life balance, contribute to positive physical and mental well-being, improve the morale and overall, productivity and performance of our people. Towards this, engagement is key, and we recorded an engagement index of 81 through Over2You engagement platform and 5 points above the external benchmark. This is encouraging, given our ambitious plan to nurture our people.

In addition, we also joined industry initiatives such as the 30% Club and CEO Action Network to expand our focus as well as support from diversity to the principles of equity and inclusion. In the long-term, our aspiration is to embed DEI in philosophy and in practice across all processes that govern our relationships at workplace as well as in the marketplace.

 For more information on how we are committed to accelerating our people agenda, please refer to Sustainability Statement on pages 52-79 of this Integrated Annual Report.



PERFORMANCE



With such a singular focus on purpose and people, we believe performance follows. At DLMI, performance is about 'Winning Profitably' in a manner that it is meaningful for both our shareholders and stakeholders. In other words, we can map our performance in two contexts:

a. Product & Market Performance:

Nutrition

Our product performance can be attributed to the role of dairy in addressing undernourishment and issues such as stunting. Research indicates that the nutritional status of children in Malaysia is alarming. According to the South East Asian Nutrition Surveys II (SEANUTS II) results, commissioned by FrieslandCampina and conducted by Universiti Kebangsaan Malaysia, 84% and 70% of children do not meet the average needs of Vitamin D and Calcium, respectively. In addition to that, 40% of children under 4 years of age have anemia.

As a result, stunting amongst children is becoming more common due to deficiencies of Vitamin D and Calcium. The National Health and Morbidity Survey (NHMS) 2019 showed a rise in the prevalence of stunting with 21.8% of children under 5 years of age being stunted.

In 2022, we saw an uptake in Dutch Lady Growing Up Milk and Friso Growing Up Milk products, which have been clinically and en masse proven effective to fulfil nutritional needs of stunted children and promote healthy growth. We will continue to invest in innovation and trademark technologies to improve our product performance that is key to our purpose of Nourishing Our Planet and People in Every Stage of Life.

Competition

One of the many triggers of product performance is competition, which we welcome. We believe, the more the competition, the more we can collectively create greater awareness on issues such as malnutrition and obesity in Malaysia. In short, our performance on the mission to Nourish our Nation is catalysed by competition and accelerated by our continuous efforts to improve the nutritional content as well as formats of our products.

As at 31 December 2022, 96.4% of our consumer dairy products were compliant with Global Nutritional Standards. We also introduced new Can format in line with consumer demand for convenient and smaller portions. As a result, we continued to retain our No.1 position by Market Value Share. We were also awarded Brand of the Decade by KANTAR - amongst all the brands in Malaysia, DLMI was chosen for 10 consecutive years. These is a testimony to the strength and resilience of our brands, with a proven track record of nearly 6 decades that continues to provide a competitive edge to our products and DLMI.



96.4% of our consumer dairy products were compliant with Global Nutritional Standards



18% increase in revenue



Chosen BRAND OF THE DECADE by KANTAR - amongst all the brands in Malaysia, 10 consecutive years



RM54.6 million profit before tax


**PERFORMANCE** (continued)



**b. Profit Performance:**

Amid a challenging market with inflationary pressures, we saw a strong demand. This can be attributed to greater consciousness amongst consumers on their nutritional needs and preference for our brand. As a result, the volume for the year ending 31 December 2022 saw a 12% increase over 2021. This contributed to a positive 18% increase in Revenue, RM114.2 Adjusted Operating Profit and RM54.6 million profit before tax (PBT). The positive revenue performance can be assigned to continued strong in-home consumption of our three main product categories - Dutch Lady Liquid Milk, Dutch Lady Growing Up Milk and Friso Growing Up Milk. The inflationary costs for raw materials went up by 10-15% and could not be fully offset through product price increase. However, a cost optimisation exercise across the board helped to mitigate a substantial portion of the impact of higher raw material costs. One-off impacts of RM43 million negatively impacted profit before tax, whereas in 2021 an exceptional upside was realised from the sale of land under the current Production Facility @ Petaling Jaya.

Profit from Expansion of Operations Profit before tax Capital spending in 2022 includes costs related to the transition from our Production Facility @ Petaling Jaya to Bandar Enstek of RM166 million. These are predominantly accelerated depreciation of Plant and Equipment (from construction of the future Production Facility @ Bandar Enstek).

 For more information on how we are creating value for our shareholders, please refer to Financial Director's Analysis as well as Financial Statements on pages 40-43 and pages 82-135 this Integrated Annual Report.

**POTENTIAL**



**Our current year's focus and performance are also a reflection of our potential. We understand the need to keep an eye on what lies ahead; explore new opportunities for learning and growth; and above all, future-proof our business, our people and our ecosystem.**

**Key milestones in 2022 for our Production Facility @ Bandar Enstek**

January 2022

**Piling completed**

February 2022

**Site mobilisation and commencement of construction**

September 2022

**Recorded 350,000 working hours with zero incidents**

December 2022

**Started installation of utilities**

**FUTURE-PROOFING BUSINESS & PEOPLE**

Given the volatility and the changing paradigm of business and responsibility, in 2023 and beyond, we will remain cautiously optimistic. While disruptions will continue to impede the pace of growth, strong consumer confidence in our brand and consistently growing demand will propel our performance.

2023 will mark 60<sup>th</sup> anniversary for DLMI in Malaysia. We will be as old (or young) as Malaysia and our commitment to Nourishing our Nation. Our priorities next year will be:

<p><b>Improve Nutritional Status of Malaysians</b></p>	<p><b>Support National Agenda of Dairy Development</b></p>	<p><b>Accelerate Sustainability Agenda</b></p>	<p><b>Further Digitalisation and Innovation</b></p>	<p><b>Create Value for Shareholders and Stakeholders</b></p>
<p>To play a catalytic role in improving the nutritional status of Malaysians and Malaysia, and specially address the alarming nutritional status of children.</p>	<p>To continue supporting the national agenda and contribute to dairy development as well as sustainable farming practices through transfer of our global expertise and knowledge.</p>	<p>To accelerate sustainability agenda through robust governance, focussed targets and alignment with global goals and local priorities.</p>	<p>To further our digitalisation and innovation journey towards strategic transformation and expansion.</p>	<p>To continue reporting positive financial performance, while creating value for all stakeholders.</p>

**ACKNOWLEDGMENTS**

I take this opportunity to specially extend our sincere appreciation to Arent Naber, Finance Director, who has now moved on to take the next challenging role with FrieslandCampina China. His contributions to DLMI have been invaluable. I also welcome new additions to the Management Team covering functions of Finance, Sales, HR, Marketing and Manufacturing, who will be critical in championing new ideas and new growth for DLMI.

Last but not the least, I thank all our stakeholders including our employees and frontliners, our suppliers and partners, as well as members of the Board and Management for believing in our purpose as well as our potential to consistently deliver positive performance. We will continue to strive towards shaping thriving communities in Malaysia. Meanwhile, we will move as one strong DLMI Team. Strong Me, Stronger Us.



# FINANCE DIRECTOR'S ANALYSIS



**KAI DE KLERK**  
Finance Director

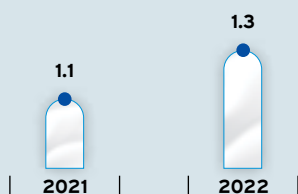


**The year 2022 proved to be unprecedented in many ways on a macro-economic level mainly due to the growing inflationary pressure already witnessed in 2021 and bolstered by global geopolitical disturbances. These disturbances, volatility, and upward pressure on commodity pricing and unfavourable exchange rate effects had their impact on the costs of doing business. Overall costs for raw materials went up by 10-15%. Despite the gradual recovery from the impacts of the COVID-19 pandemic, disruptions and uncertainties in logistics and the supply chain also continued to pose challenges. By striking a balance between these pressures and keeping our products affordable and accessible to our consumers, DLMI was able to firmly continue on our mission of "Nourishing our Nation".**

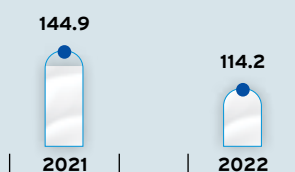
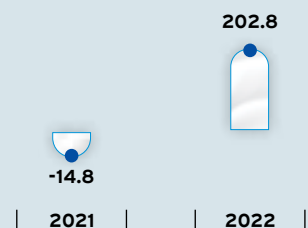


Despite all the challenges, Revenues increased by 18% from over RM1.1 billion in 2021 to more than RM1.3 billion in 2022, an upside of RM206 million. For DLMI, breaking through the RM1.3 billion mark for the first time in history is an important milestone.

Some of the inflationary pressure on the purchasing price of raw materials needed to be translated into the pricing of our products to avoid unsustainable profitability impact. At the same time, volume growth of 12% was an important contributor to the revenue upside, as our consumers remained choiceful with strong in-home consumption of our three main product categories - Dutch Lady Liquid Milk, Dutch Lady Growing Up Milk and Friso Growing Up Milk.

**Revenue (RM 'billion)****RM1.3 billion****Adjusted operating profit**

(RM 'million)

**RM114.2 million****Cashflow from operating activities (RM 'million)****RM202.8 million**

Net Profit for the year landed at RM46.3 million in 2022, a decline of 81% versus 2021 when a Net Profit of RM248 million was realised. The exceptional upside in 2021 was related to the sale of the land underlying the current Production Facility @ Petaling Jaya. A number of one-off results in 2022 contributed further to the reduction in Net Profit, which will be more elaborately addressed in the Analysis of Income.

Strong cash management is at the heart of our financial strategy and a key enabler for funding our growth strategy and the building of our new Production Facility @ Bandar Enstek, which is progressing well. DLMI continued to invest in our Future Legacy as we announced to increase investments to RM540 million to build our new production facility. DLMI will continue to focus on optimising the company's cashflow to battle inflationary headwinds and secure internal financing for the new manufacturing facilities.

Cashflow from operating activities has increased by more than RM200 million versus 2022 from a negative RM14.8 million to RM202.8 million. The improvement is driven by revenue increase from robust demand for liquid milk as well as a strong focus on the management of trade working capital and lower prepayment to a related company.

As DLMI keeps investing in sustainable future growth with significant investments in Property, Plant, and Equipment; Net Cash was at a negative RM13.4 million. A total of RM166 million has been channelled towards the construction of our new Production Facility @ Bandar Enstek.

After reconciliation, DLMI paid to its shareholders a total of RM32 million in interim dividends consisting of two standards dividends of RM0.25 each. This represents a distribution of 69% of the profits attributable to shareholders.

**ANALYSIS OF INCOME**

Our reported Revenue increased 18% versus the prior year from RM1,134 million to RM1,339 million driven by a 12% upside in volume, positive product mix, as well as price increases necessitated by the inflationary pressure from increasing costs of dairy raw materials as well as increases in other raw materials and logistics.

Cost of sales increased in line with volume, but accelerated due to a 10 to 15% higher average price of raw materials in 2022 as compared to 2021. This increase is caused by global inflationary pressure on the costs of dairy and other raw materials, and due to foreign exchange headwinds during the year. This surge in the cost of raw materials impacted Gross Profit Margins, which declined from 35% to 27% as costs could only partially be reflected in the price of our dairy products. One-off impacts further impacted Gross Margins. With a strong focus on costs, overhead expenses were controlled with very limited increases compared to revenue growth.

Operating Profit declined by 80.3% from RM286.5 million to RM56.4 million. This decline is largely attributable to the gain of RM155 million in 2021 related to the disposal of manufacturing land and buildings and lease-back of our current Production Facility @ Petaling Jaya. In 2022 one-off restructuring costs related to the discontinuation of milk powder operations in Petaling Jaya in 2023 and other lines in 2024 of RM17.9 million were incurred. In addition, the first Bilateral Advanced Pricing Arrangement ("BAPA") between the competent authorities of Malaysia and The Netherlands with regards to certain related party transactions was finalised in 2022. This arrangement covers the years 2018 to 2022. Hence, in 2022, DLMI has booked the impact from 2018 to 2021 which amounts to RM24.9 million. Additionally, accelerated depreciation was implemented in 2021 for assets in our Production Facility @ Petaling Jaya not transferring to the new Production Facility @ Bandar Enstek. A limited amount of OPEX costs have also been made related to the construction project. Adjusted Operating Profit (excluding accelerated depreciation and one-off items) is RM114.2 million, from RM144.9 million in 2021. This like-for-like decline of 21.2% versus 2021 was mainly driven by the unprecedented increase in the cost of raw materials and exchange rate headwinds.

With the aforementioned one-off results, Profit Before Tax in 2022 landed at RM54.6 million, from RM284.5 million in 2021, a decline of 81%.

A Net Profit of RM46.3 million was booked for the year ending 31 December 2022; this includes an income tax benefit of RM7.5 million, related to the above mentioned prior year impact of the BAPA agreement.

5-YEAR FINANCIAL SUMMARY

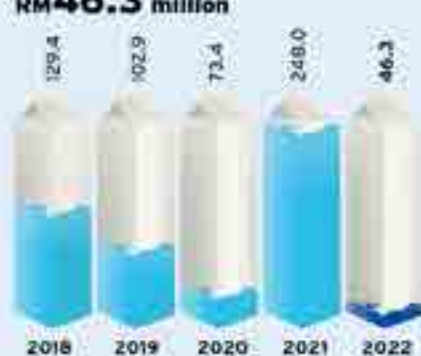
Revenue (RM 'million)  
RM1,339.4 million



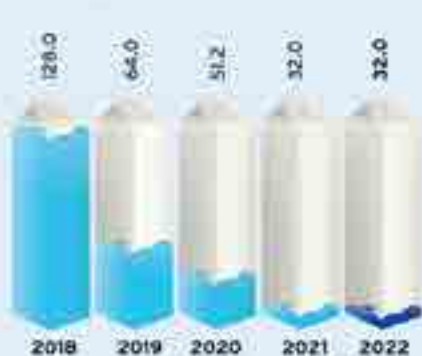
Profit before tax (RM 'million)  
RM54.6 million



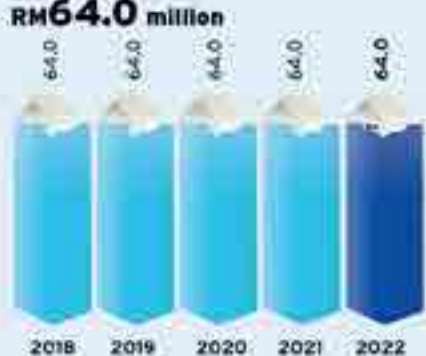
Net profit for the year (RM 'million)  
RM46.3 million



Net dividend paid (RM 'million)  
RM32.0 million



Paid-up share capital (RM 'million)  
RM64.0 million



Shareholders fund (RM 'million)  
RM396.9 million



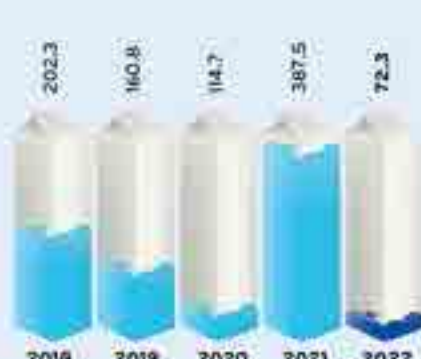
Total assets (RM 'million)  
RM844.2 million



Net asset backing per share (RM)  
RM6.20



Earnings per share (sen)  
72.3 sen





**Non-current assets  
increased by  
RM141.3 million**



**Current assets  
increased by  
RM1.6 million**



**Net cash  
decreased by  
RM13.4 million**

### ANALYSIS OF STATEMENT OF FINANCIAL POSITION

Non-current Assets increased by RM141.3 million to RM360.4 million driven largely by an increase in property, plant and equipment related to our ongoing construction of the new Production Facility @ Bandar Enstek, in which RM166 million was invested in the course of 2022. The construction is progressing well and the manufacturing site is expected to be fully operational in 2024.

Current Assets remained stable (increasing by RM1.6 million to RM483.7 million). Increasing Inventory costs as a result of higher costs of raw materials and adverse exchange rates impacted the inventory balance which increased from RM161.1 million to RM228.9 million. At the same time our Accounts Receivable position increased from RM76.4 million to RM97.7 million on the back of higher sales revenue, whereas receivables turnover days have remained relatively stable even in volatile times. The increases in Inventory and Accounts Receivable are offset by lower prepayments (reducing from RM126.2 million to RM45.9 million), mainly to a related party company for future raw materials purchases.

Current Liabilities increased by RM127.7 million, largely driven by the increased Trade and Other Payables position, due to ongoing capital expenditures for the construction of our new production facility, as well as the one-off payment related to BAPA, and increased trade spend accruals related to higher sales. Another increase is related to the current part of the provision (RM8.7 million out of RM17.9 million) related to the announced optimisation of dairy production operations in the Production Facility @ Petaling Jaya.

Non-current liabilities showed a slight increase of RM1 million mainly due to the non-current part of the above mentioned provision (RM9.2 million) for the discontinuation of the powder line, whereas deferred tax receivables and lease liabilities decreased.

Net Cash decreased slightly by RM13.4 million as the positive cashflow result from operating activities was utilised to fund growth through investing activities toward our future manufacturing site.

### RETURNS TO SHAREHOLDERS

During the financial year ended 31 December 2022, a total of RM32 million was paid out as standard interim dividends to shareholders.

This represents a 69% distribution of the Company's Net Profit attributable to shareholders of RM46.3 million. Therefore RM14.2

million was retained and added to the shareholder fund (equity), which totalled RM396.9 million. This leads to an increase in our Net Asset Backing per share of RM5.98 to RM6.20. Basic and diluted earnings per ordinary share for the year are 72.3 sen versus 387.5 sen in prior year. Please note that the distribution of dividends is based on the company's profitability, as well as the need for business and operational continuity, and in light of building our future legacy the needs to fund the company's future expansion.

### OUTLOOK

The market remains volatile and is subject to various domestic and global uncertainties and challenges, foreign exchange rate fluctuations and potential regulatory changes. Although global dairy prices are expected to show a decline they remain at historically high levels. At the same time, an uncertain geopolitical environment and volatile exchange rates will make it hard to predict input costs, whilst inflation is expected to remain a significant factor in the costs of doing business in 2023.

DLMI will stay focused on its purpose of 'Nourishing Our Planet and People in Every Stage of Life'. In order to deliver on this purpose, healthy gross margins are essential in order to continue to invest behind our people and brands. These assets will drive long term engagement with DLMI as an employer of choice and continue to increase penetration of milk in Malaysia.

DLMI is determined to invest in Malaysia even in these trying times. DLMI plans to invest RM540 million between the years 2021 and 2025 for our future manufacturing activities, which is progressing well. Furthermore, DLMI will continue to focus on optimising the company's costs and cashflow to battle the inflationary headwinds and secure internal financing for our Future Legacy with continued investments in the industry 4.0 (IR4.0)-compliant Production Facility @ Bandar Enstek, Negeri Sembilan, where we target to double our production capacity and aim to run commercially in 2024.

DLMI expects moderate growth in top line, whereas fluctuations in exchange rates could negatively affect our operating profit, therefore it is crucial to continue to be focused on costs and sustainable revenue growth.

Over the long term, the outlook for DLMI remains positive due to the strength of its brands, and the increasing need and recognition of the goodness and nutritional value of milk amongst Malaysians. The company will continue to support local dairy farmers and increase the quantity and quality of local fresh milk.

# ECONOMIC LANDSCAPE & OUTLOOK



Malaysia is aiming for a **100% self-sufficiency level (SSL)**

**in local fresh milk production by 2025.**

**In 2021, fresh milk**

**self-sufficiency ratio was 56.7%**

**(Department of Statistics Malaysia, Sept 2022)**



**Department of Veterinary Services Malaysia (DVS) is representing the government to achieve this target to expand and improve milk production in the country in**

**collaboration with DLMI to train local dairy farmers to increase the volume and quality of milk.**

## OVERVIEW

The global economy entered 2022 in a weaker position than previously expected. As the new Omicron COVID-19 variant spread, some countries have reimposed mobility restrictions. Rising energy prices and supply disruptions have resulted in higher and more broad-based inflation than anticipated, notably in the United States and many emerging market and developing economies.

According to the International Monetary Fund (IMF), global output contracted in the second quarter of this year, owing to downturns in China and Russia, while US consumer spending undershot expectations. Several shocks have hit a world economy already weakened by the pandemic; higher-than-expected inflation worldwide, especially in the United States and major European economies, which has triggered tighter financial conditions; a worse-than-anticipated slowdown in China due to COVID-19 outbreaks and lockdowns; and further negative impacts from the war in Ukraine. The third quarter of 2022 saw an unexpected robust real GDP in numerous developed, developing, and emerging market economies. The sources of these surprises in many cases were stronger-than-expected domestic private consumption, fulfilling repressed demand. In the final quarter of 2022 however, this uptick is estimated to have faded in most economies. At this point, high-frequency activity indicators (such as business and consumer sentiment, purchasing manager surveys, and mobility indicators) generally indicate a slowdown. Global growth, estimated at 3.4 percent in 2022, is projected to fall to 2.9 percent in 2023 before rising to 3.1 percent in 2024.

The Food and Agriculture Organization (FAO) reports that the dairy market remains robust and resilient as the effect of the COVID-19 pandemic on the dairy sector was relatively modest, amid initial concerns that it was particularly vulnerable. In 2021 the FAO Dairy Price Index value increased by 17% with increases across all dairy products. Strong global demand, especially from Asia drove those price increases. The sector adapted quickly to the disruptions and mitigated many of the severe effects seen in the earlier months of the pandemic, witnessing dairy exports rebounding in 2021.

On the domestic front, the pace of economic recovery has gained momentum, with a rebound in growth of 3.1% in 2021 compared to a contraction of 5.5% in 2020. The growing trend of the economy has continued into 2022 with a growth of 5% and 8.9% in the first and second quarters, respectively, as reported in the Ministry of Finance's 'Economic Outlook 2023'. The opening of international borders in April 2022 has resulted in a further easing of the nation's economic recovery. Food prices in Malaysia increased by 6.8 percent year-on-year in December 2022, the least in three months, after a record high of 7.3 percent in November 2022. Cost pressures slowed for food at home (4.9% vs 5.8% in November), meat (7.8% vs 8.2%). Milk, cheese & eggs (7.1% vs 8.9%). Milk is not a controlled priced item, but due to the unprecedented global inflation and raw material price volatility – it is a challenge for DLMI to keep its products affordable for consumers.

Malaysia is aiming for a 100% self-sufficiency level (SSL) in local fresh milk production by 2025 and according to the latest statistics from DOSM, the level stood at 56.7% in 2021. The Department of Veterinary Services Malaysia (DVS) is representing the Government to achieve this target to expand and improve milk production in the country in collaboration with DLMI to train local dairy farmers in order to increase the volume and quality of milk.



**MARKET DYNAMICS & RISKS:****Markets & External Risks**

As the global economy is contracting and prices of raw materials are increasing due to inflation and war in the Ukraine, DLMI retains our position as the no. 1 dairy company in Malaysia due to our strong and trusted brands, superior nutritious products, and targeted marketing/packaging for each of the life stages of Malaysians.

**Supply Chain & Procurement Risks**

Disrupted supply chains and port closures that have been going on since the pandemic began two years ago are slowly mending. DLMI has addressed these risks head on with many quick pivots, and by leveraging our global network for seamless sourcing and keeping our products accessible to our consumers.

**Competitive Analysis**

DLMI has 26.7%\* market share ranking it the #1 dairy company in Malaysia according to AC Nielsen. The ranking excludes product categories such as Sweetened Condensed Milk, Family Milk Powder and Health Food Drink.

**OUTLOOK**

In its 'World Economic Outlook' report for October 2022, the IMF projected the global economy to expand, although at a more restrained rate of 2.7% in 2023. Global economic activity is experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades. The cost-of-living crisis, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic all weigh heavily on the outlook.

In Malaysia, the economy is forecast to grow moderately between 4.0% and 5.0% in 2023, in line with the IMF's global forecast, according to the 'Economic Outlook 2023' published by the Finance Ministry in October 2022, at the tabling of Budget 2023.

According to Kenanga Research, Malaysia's economy will be impacted by the global economic slowdown and have predicted GDP growth for 2023 at 4.3% (2022: 8.6%), mainly attributed to weaker external demand and waning discretionary spending as cost of living rises. Kenanga said headline and core inflation are forecast to average at 2.5% (2022: 3.4%) and 2.3% (2022: 3.0%) respectively in 2023 due to the Government's cost of living initiatives, a stronger ringgit, slowing global demand, and an improvement in the global supply chain.

DLMI looks forward to increasing local market demand as data has shown that there is market growth potential, as the Malaysian halal dairy market is valued at RM4 billion and milk consumption per capita in the country is about one litre compared with 40 litres in developed regions, such as in Europe. The Group's outlook for 2023 remains cautiously optimistic amid the continuing uncertainty due to unprecedented inflationary headwinds, negative foreign exchange results and continued global supply chain challenges. Amid the raw material price volatility, the DLMI Board will continue to evaluate and balance between product prices and cost structure.




\* Nielsen Retail Audit Dec 2022

# KEY RISKS AND MITIGATION ACTION

At DLMI, our efforts are focussed on integrating enterprise risk management practices throughout our operating entity to accelerate growth and enhance performance. The Company aims for transparency in identifying, evaluating and mitigating risks by adopting the Enterprise Risk Management (“ERM”) programme that was developed and issued by RFC based on internationally recognised COSO framework. In doing so, we aspire to embed risk management in the mindset and behaviour of our employees, strengthen risk management capabilities and methods, continuously improve risk mitigation. In FY2022, the Company had faced a number of risks and uncertainties that could have both short-term and long-term implications, identified in the areas of:- foreign exchange, supply chain, project management, health & safety, commercial & competition, governance, reputation and people & performance.

Of all these risks, the three risks reported below were the most material:-

Further details on the risk management activities performed can be found in the Statement of Risk Management and Internal Controls on pages 179-187 of this Report.

Risk Category	Internal Risks	Mitigation
 <p><b>Financial Risk</b></p>	<p><b>Foreign exchange risk (FOREX)</b> Ringgit continue to decline against major currencies around the world particularly the USD, this drives the cost of doing business. Mitigation plans were developed to address the risk and minimise any impact to our customers and consumers</p>	<p>Being well-hedged in our major commodities, we managed to reduce the impacts of the input cost headwind, which enabled us to determine the right balance between input cost and product price. In addition, our operational recovery plan was able to recoup the increase in input cost</p>
 <p><b>Strategic Risk</b></p>	<p><b>Project Management</b> Our major CAPEX investment is constantly reviewed to ensure the project is delivered within the right timeline and budget allocated. Steering Committees are established to review the progress and provide direction for management</p>	<p>Continuously and actively engaging project contractors as well as government regulators to reduce the impact of COVID lockdowns and reduce foreign labour capacity, this enabled us to conduct parallel work which increased project output</p>
 <p><b>Economic Risk</b></p>	<p><b>Operating margin pressure</b> Combination of cost inflation and foreign exchange impact is driving input cost. Business mitigation plans were carried out to address the risk diligently and minimise any impact to profitability as well as our customers and consumers</p>	<p>Being aware of rising input cost, we managed to reduce the impacts of the input cost headwinds by driving an operational recovery plan and reviewing our revenue generating activities including our promotional and trading terms</p>

# DLMI STRATEGY FRAMEWORK

The lingering threat of new COVID-19 variants, rising inflation, negative foreign exchange effects, global supply chain disruptions and rising costs of raw material has directly impacted DLMI's strategy and required quick, targeted decisions making in several key operational areas. Various strategies have been employed to uphold the Company's 4 P's; Purpose, People, Performance, and Potential and this has consistently resulted in a winning outcome.

DLMI has maintained its no.1 position by Market Value Share, coupled with a 12% year on year increase of sales volume and an 18% increase in revenue with RM54.6 million profit before tax. DLMI continues to act with agility and preserve cash and cost wherever possible.



As 'Nourishing our Planet and People in Every Stage of Life' is the Company's guiding purpose, continuous efforts have been made to ensure a nutritious product portfolio, one of them being the Dairy Development Program (DDP), a collaboration with the Department of Veterinary Services and the Embassy of the Netherlands, where local dairy farmers have been helped to improve and adapt their farming techniques to increase the quality and quantity of local fresh milk. With the drive to be a responsible manufacturing hub in the Region, DLMI has intentionally changed its operational approach to sustainability, by measuring efficiency and equity as separate principles, which will steer its EES&G performance.

The negative impact of the pandemic over the last two years on employees has been well noted and DLMI strives to make operational policies that favour employee working conditions, as human capital is critical input that drives financial performance. Efforts in 2022 have been focused on implementing the flexible remote-work policy and checking up on staff physical and mental health.

DLMI is addressing undernourishment and stunting issues in the population with the provision of nutritional dairy products and continues to invest in innovation and trademark production technologies to improve product performance. The Dutch Lady Growing Up Milk and Friso Growing Up Milk products which have been proven effective to fulfil nutritional needs of stunted children has seen positive market reception in 2022.

Despite the economic headwinds with inflationary pressures in 2022, as at 31 December 2022, DLMI saw an increase in volume of production by 12% over the previous year, with a positive 18% increase revenue, and RM54.6 million profit before tax, this has been due to the exceptional demand of nutritious Dutch Lady products.

Whilst expecting inflation to rise over the next year, DLMI is facing the challenges head on, buoyed by increasing demand and the potential for growth. In preparation for growth and future-proofing the business, DLMI has embarked on a RM540 million expansion plan to build a new Industry 4.0 (IR4.0)-compliant factory in Bandar Enstek, Negeri Sembilan, to be built via internally generated funds, aiming to run commercially in 2024, with a target to double its current manufacturing capacity by then. The factory will be equipped with advanced technologies, including automation, big data, cloud computing and the Internet of Things to increase its production efficiency.

# KEY PRODUCT HIGHLIGHTS



We became a stronger **#1 dairy player in Malaysia**



Dutch Lady IFT and MaxGro delivered a **positive value growth of +1.5%**



We strengthened our pool of advocates with adding fathers into the program, named **Friso Gold DadMombassadors**

Despite the challenges of price movements and/or trade behaviour, we continued to focus on our mission of Nourishing our Nation in 2022. We do that by driving value for our consumers with innovative formats and/or flavours and targeted communication on the need for milk nutrition. This has led to us to hold our volume in the liquid milk category, despite the category declining at -4.2%\*. Through the right portfolio and channel mix, and consumer-centric activities, we grew in value by +8.9% vs. last year\* in the liquid milk category vs. the market at -3.4%. Hence, within the total Dairy category, our market share improved to 26.7%\*, where we became a stronger #1 Dairy Player in Malaysia, reinforcing the trust and connection we have with our consumers and that our products are much loved by Malaysians. Overall, our brand has a high household penetration of 3.7 million Malaysian households (57.7%) consuming Dutch Lady products annually\*\*.

Within the liquid milk segment, Dutch Lady further strengthened our leadership position with a 40.2% value share\*. The growth is contributed by impactful consumer campaigns such as Ramadan & Morning Campaigns, successful flavour innovations such as Dutch Lady Cookies & Cream & Vanilla Ice-Cream portion packs, festive flavour Lychee Juicy Milk, and the Kurma & Banana Flavored Milk range during Ramadhan/Raya. We also had a successful launch with Dutch Lady in can format, riding on the wave of growth in out-of-home consumption once all COVID-19 restrictions were fully lifted.

Dutch Lady also continued its leadership position in the total infant and toddler nutrition (IFT) segment with 18.1% share. Dutch Lady IFT and MaxGro delivered a positive value growth compared to previous year\* however, faced a volume decline with the decreasing birth rates and overall shrinking of the consumers' pocket due to inflation and post-pandemic impact. Despite the declining volume, the penetration for Dutch Lady IFT remained stable vs. previous year at 27.7%\*\*.

Some of the key highlights for the year are: The Ramadan campaign "Berkat Ramadan Dan Susu" and the national promotion campaign "Koleksi

Si Cerdik". The continued efforts on Dutch Lady MaxGro in the Specialised Child Nutrition segment have more than doubled the business both in terms of value and volume. We will continue our focus on MaxGro to support the Optimal Growth of Malaysian children in our efforts to minimise the Stunting issue faced in Malaysia.

Friso Gold grew in 2022 with +9.5% value and +2.1% volume in the IFT premium segment through continued focus on Novas Signature Milk which contains small molecules & soft structure, high-quality milk produced by our farms in the Netherlands to enable Good Digestion for Stronger Inside. This year, we strengthened our pool of advocates with adding fathers into the program, named Friso Gold DadMombassadors, bringing strong social and positive word-of-mouth for the brand. This garnered the highest share of engagement amongst other premium IFT brands, with second placement in share of voice. The multiple activities integrated across mediums, channels and departments have brought the growth such as the 'Grow Stronger for the Tiger Year' festive campaign, Friso Gold Global Symposium with face-to-face interaction with healthcare professionals and global speakers, and our support in-store from our Nutri Advisors.



\* Nielsen Retail Audit Dec 2022

\*\* Kantar Worldpanel Malaysia - Household Panel, MAT P13 2022

# ENJOY THE FLAVOUR FOR A STRONG ME, A STRONGER US



**PACKED WITH PROTEIN AND EVEN MORE CALCIUM**

\*Increase in value of Calcium is only applicable to Dutch Lady UHT Full Cream and milk powder variants of plain, honey flavoured and chocolate flavoured.



RS

M\*

