

JOURNEY of Refreshment

What started as an aerated company in 1883 has grown from strength to strength over the years to become the F&N Group today that owns a reputable stable of brands ranging from soft drinks to dairies and beer. Through the years, F&N has built a strong portfolio of brands known for their refreshing tastes and nourishing goodness, a regional network of manufacturing plants and sales and distribution channels, and most importantly a sound reputation as one of the region's leading Food and Beverage ("F&B") producers. Today, F&N holds the number 1 position in Malaysia for soft drinks, and maintains key positions in dairies and beer segments in this region. Even though there have been changes to our profile with the ending of the partnership with The Coca-Cola Company, as well as the divestment of our entire interest in Asia Pacific Breweries Limited, product innovation, strengthening of marketing and distribution activities, and increasing our operational efficiency will continue to propel the Group's F&B business forward to new heights.

Revenue increased 2% to

\$3,778M

BUSINESS OVERVIEW¹

FY2012 was a year of transformation for our F&B division. We successfully unlocked significant value of the beer business through the divestment of Asia Pacific Breweries Limited ("APB"), and positioned our successful Soft Drinks, Dairies and Myanmar beer brewing businesses for long-term growth and profitability while performing in the current marketplace.

In August 2012, after receiving an improved offer, the Board of F&N signed conditional sale and purchase agreements with Heineken International B V ("Heineken"), a wholly-owned subsidiary of Heineken N V, to sell F&N's entire 39.7% interest in APB and other assets held through Asia Pacific Investment Pte Ltd ("APIPL") for a total consideration of \$5.6 billion. APIPL was the 50:50 joint venture company through which F&N and Heineken held their joint 64.8% interest in APB. Shareholders at an extraordinary general meeting convened in September 2012 approved the sale. In November 2012, the Group completed the sale to Heineken, to book a gain of around \$4.8 billion in 1Q 2013.

PBIT increased 1% to

\$535M

Note:

¹ The results in this section includes the Group's share of Asia Pacific Breweries Limited/Asia Pacific Investment Pte Ltd FY2011 and FY2012 results which were presented separately as Discontinued Operations in the Group Financial Statements



PASCAL DE PETRINI
CHIEF EXECUTIVE OFFICER



Following the completion of this sale, the Group's beer portfolio now consists of a 55%-held brewery in Myanmar Brewery Limited ("MBL") in Myanmar. Established in 1995, MBL manufactures and sells Myanmar's leading beer brands such as *Myanmar Beer*, *Myanmar Double Strong* and *Andaman Gold*.

In FY2010, the Group took a bold step to end its licensing partnership with The Coca-Cola Company ("TCCC") in Singapore, Malaysia and Brunei. This transformative step allowed our successful Soft Drinks business to be better placed to face challenges of delivering short-term profitability in this rapidly changing consumer behaviour and competitive environment, as well as to realise future growth opportunities in order to create long-term shareholder value. Beginning in FY2011, we started our journey of this transformation. We stepped up our efforts in marketing activities, boosted our investment in R&D and facilities, and expanded our product



offerings to our consumers. I am happy to report that we have made strong progress and our portfolio of endearing and locally relevant brands continues to deliver solid results. This year, Soft Drinks in Malaysia and Singapore achieved volume and revenue growth of 19% and 17%, respectively, across our portfolio of brands, solidifying our position as one of ASEAN's leading F&B players.

Following a poor start in FY2012 by factors beyond the Group's control in Malaysia and Thailand, Dairies operations recovered strongly in the 2H2012. Dairies Thailand fully recovered production after a 200-day cessation of manufacturing activities, with profits returning to pre-flood levels. In Dairies Malaysia, earnings also improved in the 2H2012 due to higher export volumes and improved margins from favourable product mix. In Dairies Singapore, higher export sales were offset by lower domestic sales. Revenue of F&N Creameries,

our ice cream division, was higher on increased sales in Malaysia. Despite unpredictable events mentioned above, Dairies FY2012 revenue was only 9% lower than last year. Dairies PBIT however was 31% lower than last year due to unabsorbed operating overheads as a result of plant closure in Thailand due to floods in the 1H2012. Excluding Dairies Thailand, Dairies PBIT would have been 67% higher than last year.

Overall, F&B FY2012 revenue gained 2% to \$3,778 million, bolstered by strong double-digit growth in the APB business. Despite a 23% PBIT growth in the APB business, and double-digit earnings growth in MBL, F&B PBIT grew 1% to \$535 million mainly due to the absence of TCCC's contribution and expenses incurred for a rationalisation exercise to improve Soft Drinks productivity.

SOFT DRINKS: A NEW CHAPTER

1 October 2011 marked a new milestone in the 129-year history of F&N with the return of our Soft Drinks business in Singapore. A homecoming for the company's founding business, the F&B division regained control of all aspects of its soft drinks business, from manufacturing and marketing to sales and distribution. Our subsidiary, F&N Foods Pte Ltd, became the sole distributor of all F&N beverages in Singapore, while our Malaysian-listed subsidiary, Fraser & Neave Holdings Bhd, covers Malaysia and Brunei. This new structure allowed F&N to aggressively push marketing and sales activities for all F&N beverages regionally as the Group springboarded plans from our home market to solidify our position as one of ASEAN's leading F&B players.

This year, Soft Drinks division extended its leadership positions in the F&B industry with new products to cater to an increasingly discerning generation of consumers. Armed with formidable, well-established brands like the 100PLUS isotonic drink, F&N Sparkling Drinks, F&N SEASONS Asian-inspired drinks and teas, as well as the F&N ICE MOUNTAIN water range, we forged ahead from a position of strength with our five soft drinks manufacturing plants in Malaysia, including the state-of-the-art facility in Shah Alam. 100PLUS EDGE was introduced at the beginning of the financial year to herald the division's efforts to offer even more choices and to drive new and differentiated products across our Soft Drinks portfolio. Together with our strong line-up of dairy products, F&N now offers a comprehensive beverage portfolio in Singapore and Malaysia.

F&N's successful multi-brand portfolio has always been driven by its overarching philosophy of *Pure Enjoyment. Pure Goodness.* The company's strong emphasis on branding, coupled with a deep understanding of consumer behaviour, has resulted in a multi-brand portfolio that fulfils the various refreshment, hydration, rejuvenation, nutrition, health and wellness consumer needs.

100PLUS: *Outdo Your Everyday*

With the aim of promoting active lifestyles and healthy living, 100PLUS remains at the forefront of all major sporting events as the isotonic drink of choice, while encouraging consumers to outdo themselves in their everyday lives.

100PLUS continues to dominate the ready-to-drink segment in Malaysia. Several initiatives were launched to deepen and widen 100PLUS' presence and equity in the market. The "100PLUS Infinity Challenge Contest" held in October 2011 offered Malaysians a rewarding augmented reality online gaming experience using webcams and QR codes, making 100PLUS the first beverage brand to use QR codes to enable game play.

Another notable campaign in Malaysia included the "100PLUS Road to London Campaign" in April 2012 which rallied Malaysians from all walks of life to support the national contingent at the London Olympics. Well-wishes poured in throughout the campaign, with hundreds of thousands of supportive messages, signatures and video dedications. In conjunction with the campaign, 100PLUS signed on national celebrity athletes including Datuk Lee Chong Wei, Pandalela Rinong and Khairul Fahmi Che Mat and Safee Sali as 100PLUS ambassadors.

In Singapore and in a year filled with exciting sports events, 100PLUS presented a complete isotonic portfolio to refresh, recharge and re-energise for all occasions with its launch of 100PLUS EDGE. 100PLUS continued to make headlines with its presentation of "The Straits Times Athlete of the Year Award". This annual award gives recognition to athletes who are determined to excel and to bring honour to their sport and country. In addition, 100PLUS also presented "The Straits Times Star of the Month Award". This year, 100PLUS also continued to support Singapore's dedicated and outstanding national table tennis team.







F&N SEASONS: Share the Healthy Goodness

F &N SEASONS presented a series of refreshing treats to its consumers through its campaigns to reward its loyal fans.

In Malaysia, the “Stay Cool with F&N SEASONS” campaign was launched in October 2011 to showcase the F&N SEASONS Asian drinks range. The campaign, which encouraged consumers to “Share the healthy goodness with your friends”, highlighted the cooling properties of the F&N SEASONS Asian drinks range. F&N SEASONS then kick-started the new year with the “F&N SEASONS Ushers in the Dragon 2012” campaign in January 2012. The campaign which featured radio, print and online advertising was created to accompany aggressive sales efforts for the festive season.

F&N: Spread the Cheer

F &N sparkling drinks’ involvement in the “Singapore Dance Delight” movement showcased some of the best street dancers in the region. “Singapore Dance Delight Vol. 3” continued to gain popularity in Singapore, delighted its audiences who witnessed the battle for the honour to represent Singapore at the finals in Japan, where the winning team competed against some of the best street dancers from around the world. This year, the Singapore leg of the competition saw teams from South East Asia making it into the finals.

In Malaysia, the launch of Fikir Fresh with F&N Clearly Citrus in November 2011 offered consumers a burst of refreshing lemon lime flavour to complement our existing sparkling range. In June 2012, F&N introduced a first-of-its-kind interactive “F&N Relaunch – Fresh & New Interactive Experience” campaign. This campaign merges live digital media with traditional media and included the launch of the “Fresh & New Bubble Blaster” gaming application for mobile devices. F&N also introduced a new look for its range of sparkling drinks, emphasising the youthfulness and dynamism of the brand. During the nationwide roadshow, consumers enjoyed a carnival-like atmosphere via the Augmented Reality dance-off and participated in many exciting games.



BEER: A LAND OF OPPORTUNITY

Established in 1995, MBL manufactures Myanmar's leading beer brands such as flagship brand *Myanmar Beer*, *Myanmar Double Strong* and *Andaman Gold*. This year, MBL maintained its market leadership position in Myanmar and delivered positive volume growth.

This year, several strategic initiatives have been put in place as MBL prepares for future challenges of potential new entrants into the market, with the Myanmar government having issued several new beer licenses in the year. The year saw MBL take control of direct distributorship, allowing us to respond more quickly to the market and our customers. A capacity upgrading plan was completed with a new high-speed bottling line installed in the year. This ensures that we are well-positioned to seize growth opportunities with the opening up of the Myanmar beer market.



From top: Myanmar Double Strong Cup Sepak Takraw Championship 2012, Myanmar Beer new look launch on 17 October 2012



DAIRIES: NURTURING GROWTH

While the focus remained on driving organic growth in key markets of Singapore, Malaysia and Thailand, the Group continued to cultivate new ASEAN markets to grow our dairy business.

In Malaysia, F&N maintained its leadership position of the sweetened condensed milk and evaporated milk categories, with both taking majority market shares.

A highlight of the year was the smooth transition of Dairies Malaysia's manufacturing plant to the Pulau Indah Halal Hub. The division now operates with the most advanced technologies used in liquid milk canning today. This will allow for improved quality control over our products, reduced production costs and pave the way for more new product variants – such as our recently introduced *F&N Hi Calcium Sweetened Creamer*. The plant has also been accredited with ISO 9001:2008, ISO22000:2005, HACCP Codex and MS 1480 certification, as testament to its high standards of manufacturing and food safety.

2012 also saw the return of a level playing field following the removal of sugar subsidies for selected F&B manufacturers and our taking control of the distribution of acquired brands. The division now enjoys full control of its distribution and the route-to-market of its total product portfolio with savings envisaged from margins and distributor commissions.

F&N MAGNOLIA: Passing on Treasured Values

2012 marked the 75th anniversary of *F&N MAGNOLIA*. The brand celebrated 75 years of trusted goodness with a year-long theme of "Passing on Treasured Values" and lined up an exciting series of promotions and activities to thank consumers for their support. *F&N MAGNOLIA* was the proud supporter of the annual READ! Singapore campaign, a national initiative by the National Library Board to promote the culture of reading among Singaporeans and to offer them opportunities to rediscover the joys of reading. For three years now, *F&N MAGNOLIA* has also nurtured young readers through its partnership with "The Little Red Dot Reading Passport Programme" in schools.



F&N FRUIT TREE FRESH: Goodness Each Day

F &N FRUIT TREE FRESH No Sugar Added Red Grape Mixed Juice was launched in August 2012 as the latest addition to the F&N FRUIT TREE FRESH No Sugar Added range. The product offers the antioxidant benefit of red grapes coupled with the delicious crisp taste of red and white grapes. This message was delivered to its target consumers through an aggressive advertising and promotion blitz nationwide.

F&N NUTRISOY: Heart's Preferred Soya Milk

F &N NUTRISOY earned the distinction of being the most popular soy brand in Singapore in 2012 and reinforced its position as Singapore's number 1 soy milk with its emphasis on heart health. Cholesterol and lactose-free, the range has been awarded the Healthier Choice Symbol by the Health Promotion Board and is supported by the Singapore Heart Foundation. F&N NUTRISOY also supported the World Heart Day 2012 and National Heart Health Week, organised by the Singapore Heart Foundation with promotions for consumers.

Ice Cream: Creating Cool Pleasures

F &N Creameries launched F&N MAGNOLIA Sherbet in Malaysia and Thailand, and partnered with Astro Malaysia to create a branded content program titled "OMG! Sherbet" on the Diva Channel in 2012. F&N Creameries has also added Japan to its list of export markets in addition to Taiwan, Hong Kong, China and Indochina.

In November 2011, F&N Creameries Malaysia was presented a Superbrand award for *King's*, a much-loved brand in both Malaysia and Singapore that epitomises family values. F&N Creameries has further strengthened its organisation and capabilities by rationalising its product range and upgrading its quality and food safety systems. Its two Malaysia plants in Shah Alam and Kuching were both awarded HACCP system certification, the gold standard for food safety.



LOOKING AHEAD

Following the divestment of the Group's entire interest in APB, the Soft Drinks business is grouped with the remaining Beer business to form the Beverages segment. Looking ahead, we remain focused on our core businesses in Beverages and Dairies, strengthening our portfolio of brands within a diverse base of geographical markets. I am optimistic that our strong financial position coupled with strategies of striving for operational excellence and bolstering market leadership through consistent branding efforts should put us in good stead.

Operational excellence, business innovation and market expansion will remain the key pillars to drive long-term growth. We will continue to invest and strengthen our route-to-market as well as our brand equity across all our businesses. Business innovation across all platforms will be strived upon to deliver value to our customers and the company. We hope to be able to make further inroads into new markets which will enable us to capture growth opportunities and further strengthen our presence and performance in the region.