CEO Business Review • Food & Beverage

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"The actions we took this year were part of the Group's Vision 2020 plan, designed to take F&N one step further on the transformation journey of our company."

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Business Overview

The actions we took this year were part of the Group's Vision 2020 plan, designed to take F&N one step further on the transformation journey of our company. As the market environment is rapidly changing, the Group understands that to stay ahead, we need to make significant changes. We are transforming this successful company to position it for long-term sustainable growth while continuing to deliver strong and consistent results during this transformation phase.

This year, we focused our efforts on growing our key global brands and categories in our most important markets to drive profitable growth. We have been focusing our resources – marketing and innovation – behind these power brands and key markets to grow sales and market share. Building from our positions of strength with leading market positions in Singapore, Malaysia and Thailand, we have and will continue to unlock growth opportunities in new product categories, such as tea in Soft Drinks and UHT milk in Dairies.

On top of driving intra-market growth by solidifying our leading positions in primary markets of Singapore, Malaysia and Thailand, the Group also embarked on an aggressive regionalisation plan, to support our vision of becoming a leading and sustainable food and beverage company by 2020. Riding on the Group's strong portfolio of brands, in-depth understanding of distribution channels and strong relationships with partners, the Group invested significantly behind our core brands and expanded its presence in Thailand, Myanmar and Vietnam, beginning with Soft Drinks.

Our strategy consolidates our positions in traditionally strong markets and builds brand share in the emerging markets of the future, setting us up for long-term sustainable growth.

Revenue

Food & Beverage ("F&B") FY2015 revenue was up 1% (6% in constant currency) to $1,762m, supported by volume growth in Dairies, despite adverse foreign exchange effect, and weaker Soft Drinks performance on cautious consumer sentiment and lost sales from floods in Malaysia.

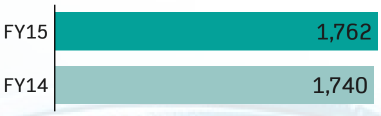
Dairies FY2015 revenue was up 2% on the back of a 6% volume growth, supported by the strong performance of Dairies Thailand where volume grew 7%. Soft Drinks FY2015 volume and revenue were flat against FY2014, despite lower soft drinks sales in Malaysia due to lost sales as a result of the flooding along the east coast of Peninsular Malaysia in the first-quarter of FY2015 ("1Q2015"), unfavourable sales mix as well as adverse foreign currency effect.

Profit

Despite a 21%-profit improvement in Dairies, F&B earnings declined 13% on higher brand investment costs to support regional expansion, higher logistics costs as a result of the flooding, higher marketing costs for new product launches, as well as translation losses from a weaker Malaysian ringgit. Excluding brand investment costs of $13m in new markets of Thailand (Soft Drinks), Myanmar, Indonesia and Vietnam, earnings had a smaller decline of 4%.

This year, Dairies delivered strong performances across all its core markets of Thailand, Malaysia and Singapore, benefitting from higher canned milk volumes across key brands and lower input costs, despite a weaker ringgit. Capitalising on its No. 1 canned milk market position to further cement consumer awareness, Dairies also fortified its leading position in the on-premise segment and in food and beverage applications. Helped by lower input costs, Dairies PBIT surged 21% to $69m (+31% in constant currency).

Revenue ($m) ▲**1% (+6%[1])**



Profit Before Interest & Taxation ($m) ▼**13% (-7%[1])**

Profit Before Interest & Taxation Margin (%) ▼**1pp**

[1] In constant currency

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The Group saw a weaker performance in Soft Drinks this year. In addition to the brand investment outlay for regional expansion, higher marketing costs for new product launches, weaker ringgit, as well as lost sales from the Malaysian floods in 1Q2015 also impeded Soft Drinks profit growth. Consequently, Soft Drinks profit fell 43%, to $38m. Excluding brand investment costs in new markets, Soft Drinks earnings slid 26%.

Developments

In January 2015, the Group, through its listed subsidiary, Fraser & Neave Holdings Bhd, secured several 22-year licensing agreements with Société Des Produits Nestlé S.A. and Nestec S.A. (collectively, "Nestlé") to manufacture and distribute *CARNATION, BEAR BRAND, BEAR BRAND Gold, IDEAL* and *MILKMAID* in the ASEAN region, including Singapore, Thailand, Malaysia and Brunei. The licenses are for a period of 11 years 7 months, with a right to extend for a term of 10 years until 31 January 2037. These extended licences granted by Nestlé allowed the Group to better plan and invest in its full portfolio of canned milk business and support the growth of our own canned milk brands in the region.

Today, F&N is a leading manufacturer of canned milk in Asia, with production facilities in Singapore, Thailand and Malaysia. The Group is also the undisputed market leader in the condensed milk and evaporated milk segments in Malaysia with market share of over 56% and 65%, respectively. Similarly in Thailand, the Group leads the evaporated milk segment with more than 73% market share, and is the dominant player in the sterilised milk segment. To cater to the growing market demand, as well as to realise the fullest potential of our canned milk business, the Group invested on a new THB300m ($12m) filling and packaging line at our manufacturing plant in Rojana, Thailand.

Similarly, Soft Drinks Malaysia is eyeing expansion in East Malaysia due to growing demand in Sabah and Sarawak. The Group would be investing over RM100m ($37m) to build a new soft drinks plant in Kota Kinabalu Industrial Park, East Malaysia. Scheduled to be operational by 2021, the new plant will double the capacity of our current plant in Kota Kinabalu, allowing the Group to scale up its soft drinks operations in East Malaysia.

On 19th August 2015, the Group completed the sale of its 55% stake in Myanmar Brewery Limited to Myanma Economic Holdings Limited for US$560m, and realised a net divestment gain of $542m, after deducting the cost of investment and relevant taxes. Proceeds from this sale will be invested to strengthen the Group's competitiveness and to achieve full business potential in our core markets. We will also deploy additional funds to support our expansion in the new markets of Myanmar, Vietnam and Indonesia.

Innovation

Innovation is in the lifeblood of F&N. In response to global trends and in anticipation of changing consumers' needs, this year, the Group launched a variety of new products, variants and packaging to rejuvenate and re-engage consumers. From *100PLUS* flavour extension to adding ginkgo to our UHT milk range, the Group has one of the strongest line-ups of innovation this year.

100PLUS Berry, the latest flavour extension for the leading isotonic beverage, was launched in June 2015. Lightly carbonated, *100PLUS* Berry is a blend of strawberries and blueberries. The early results are very promising; in the three months ended 30 September 2015, *100PLUS* Berry has contributed 3.4% to the total volume of the *100PLUS* portfolio in Malaysia.

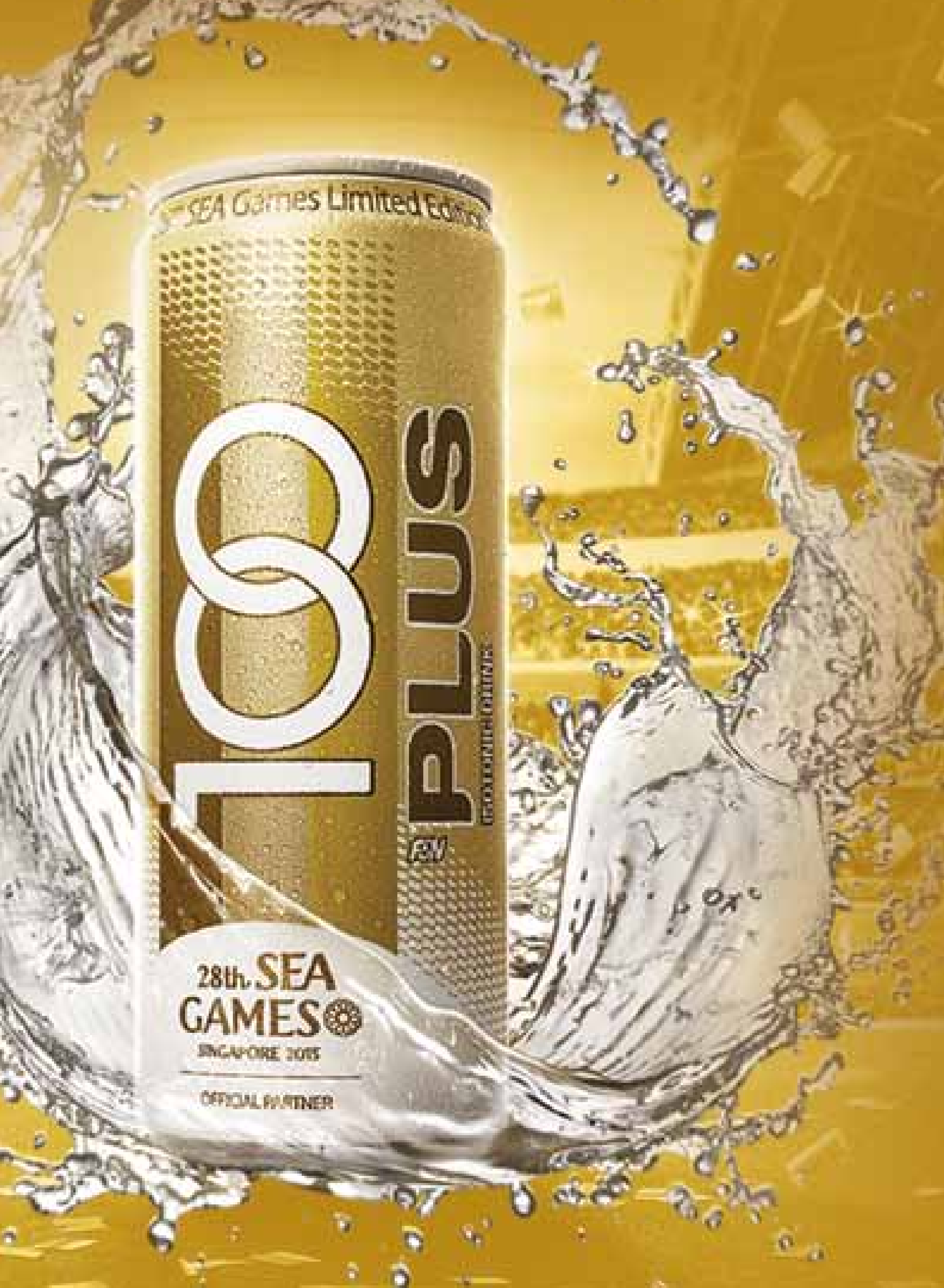
Riding on the global wave of increasing consumer consciousness and preference for healthy beverages, F&N launched its 100% coconut water, *COCO LIFE*, to very encouraging response in Singapore and Malaysia.

On the Dairies front, the Group introduced its first functional UHT milk, *F&N MAGNOLIA* Ginkgo Plus, in Thailand, the first of its kind in the market.

Our innovation is extended to product packaging too. This year, our packaging innovations included a new proprietary PET bottle for *100PLUS,* designed with a grip area

to better fit the curve of a hand, complementing active lifestyles of consumers. The new bottle is also slimmer, more environmentally friendly and uses 17% less plastic.

Packaging rejuvenation came in the form of new slim cans for *100PLUS* and *F&N* Sparkling Drinks. Characteristic of F&N's leadership in innovation, these were the first ever slim cans in Malaysia's sparkling drinks category. Flaunting a slender silhouette and trendy appearance, the taller and slimmer can is not only an attention grabber on the shelves, it is also easier to hold and fits more conveniently in small compartments.



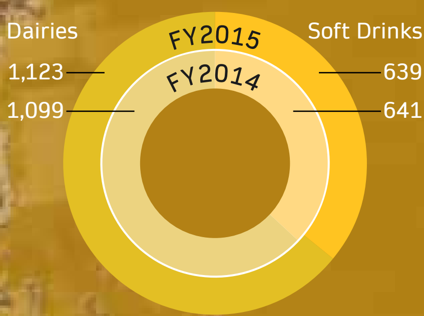
Looking Ahead

For FY2016, the Group expects consumer sentiment to remain cautious as the economic climate in Southeast Asia continues to be challenging, especially in the Group's primary markets. Malaysia is expected to face a slow-down in domestic consumption and lowered consumer confidence due to slow economic growth and inflationary pressures. In Thailand, domestic consumption could continue to be impacted in 2016 as consumer sentiments hit a 17-month low amidst slow economic growth in 2015.

The Group will also face continual challenges from foreign exchange effects as the Singapore dollar strengthens against neighbouring currencies. However, the Group is confident that with geographic expansion into emerging markets of Myanmar, Vietnam and Indonesia, we will be able to gain sales growth and market share. While these new markets will provide additional avenues for sales growth, the brand investments will take a few years to yield returns.

F&N is confident that our strong financial position, diverse portfolio of brands, market leadership positions, well-established distribution networks and synergies extracted from working closely with Thai Beverage Public Company Limited ("ThaiBev") will put us in good stead to not only face these challenges, but to also seize growth opportunities in the region.

Revenue ($m)



Profit Before Interest & Taxation ($m)