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FRASER AND NEAVE, LIMITED
Company Registration No. 189800001R
Incorporated in the Republic of Singapore

# Fraser and Neave profit increases 43 per cent in the first nine months

- ***Profit after taxation[1] up 43 per cent to $127.2 million***
    - ***Including Discontinued Operations[2], profit after taxation fell 29 per cent***
- ***PBIT[3] improved 26 per cent to $140.8 million***
    - ***Dairies led earnings growth; PBIT up 66 per cent***
    - ***Food & Beverage earnings up 31 per cent to $128.5 million***
    - ***Food & Beverage PBIT margin rose to 10 per cent, from 7 per cent***

| Financial Highlights (S$ 'million) | 3 months to 30 June 2016 | 3 months to 30 June 2015 (Restated[2]) | 9 months to 30 June 2016 | 9 months to 30 June 2015 (Restated[2]) |
|---|---|---|---|---|
| Revenue | 524.0 | 546.7 | 1,486.9 | 1,595.4 |
| PBIT[3] | 58.7 | 46.9 | 140.8 | 111.8 |
| Profit After Taxation<br>- Continuing Operations<br>- Discontinued Operations | 53.4<br>53.4<br>- | 66.5<br>38.1<br>28.4 | 127.2<br>127.2<br>- | 178.5<br>89.1<br>89.4 |
| Attributable Profit[1,4] | 38.0 | 24.9 | 75.1 | 52.7 |
| Earnings Per Share (basic)(cents)[1,4] | 2.6 | 1.7 | 5.2 | 3.6 |
| Net Asset Value Per Share | | | $1.78 | $1.57<br>(30 Sep 2015) |

1 *Continuing operations*
2 *In August 2015, the Group completed the sale of its brewery in Myanmar. To reflect the sale of this brewery, its FY2015 operating results have been restated as Discontinued Operations*
3 *PBIT denotes profit before interest, taxation and exceptional items; continuing operations only*
4 *Before exceptional items*

SINGAPORE, 4 AUGUST 2016 – Fraser and Neave, Limited ("**F&N**" or the "**Group**") achieved revenue of $524.0 million in the third quarter ended 30 June 2016 ("**3Q2016**"), a fall of 4 per cent over the same period last year. The decrease in revenue was largely due to a decline in soft drinks sales in Malaysia where increasing pricing pressures and weaker Ringgit eroded growth. Despite lower revenue, Group 3Q2016 profit before interest and taxation ("**PBIT**") soared 25 per cent to $58.7

million. The strong performance was attributed to robust performance in Dairies, where profit increased 64 per cent to $33.9 million in 3Q2016, despite higher operating costs incurred for expansion into new markets, brand building activities, and translation losses from unfavourable exchange rates.

Dairies Thailand, in particular, continued to excel as the Group's best performing operation. Its 3Q2016 profit jumped 43 per cent on revenue increase of 1 per cent, mainly due to lower input costs and more cost-effective trade distribution, and despite unfavourable translation effect (49 per cent increase in constant currency terms).

Dairies Malaysia 3Q2016 revenue, although benefitting from higher volume, was flat against the year-earlier period due to unfavourable translation effects. On a constant currency basis, revenue would have grown 8 per cent. Aided by lower input costs and ongoing productivity improvements, Dairies Malaysia 3Q2016 PBIT nearly doubled (111 per cent in constant currency), despite unfavourable translation effect.

Beverages division recorded weaker performance in 3Q2016. Despite successful execution of festive consumer and trade promotions, intensifying pricing pressures, higher marketing spend on new products and in new markets, as well as weaker Ringgit adversely impacted earnings. This quarter, Beverages revenue and PBIT declined 9 per cent and 41 per cent, respectively.

For the nine months ended 30 June 2016 ("**9M2016**"), Group revenue was down 7 per cent to $1,486.9 million. Despite lower revenue, Group PBIT improved 26 per cent, from a restated $111.8 million to $140.8 million, aided by favourable input costs and higher operational efficiencies, despite adverse foreign currency translation impact and a rise in brand investment costs and operating expenses to support regional expansion in new markets of Indonesia, Myanmar, Thailand and Vietnam.

Boosted mainly by higher interest income, Group 9M2016 profit after taxation leapt 43 per cent*, to $127.2 million.

**Corporate Development**

On 1 July 2016, Fraser and Neave, Limited ("**F&N**" and together with its subsidiaries, the "**Group**") acquired the entire issued share capital of Warburg Vending Pte Ltd, Warburg Engineering Pte. Ltd. and Warburg Vending Services Pte. Ltd. (collectively, "**Warburg**") for approximately $29 million in cash. Warburg is a leading player in the Singapore vending market with over 18 years of operational experience, and has been a partner of F&N since 2011.

The acquisition of Warburg is a strategic fit with F&N's food and beverage business. Together with Warburg, the Group's total number of active vending machines increased by almost threefold, thereby expanding its vending network and increasing its brand visibility in both public and private segments, across educational, industrial and commercial sectors in Singapore.

The acquisition was funded fully from internal sources.

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* From continuing operations

**Operations Review (9 months ended 30 June 2016)**

**DAIRIES**

The Group's Dairies division continued to deliver strong performances across its core markets of Thailand and Malaysia, benefitting from higher canned milk volumes across key brands. Despite translation losses, Dairies 9M2016 PBIT jumped 66 per cent (+84 per cent in constant currency) to $99.5 million, as a result of lower input costs and improved operational efficiencies.

(A) Dairies Thailand

Dairies Thailand continued to shine as the Group's largest profit contributor. Despite lost sales from *Bear Brand* and *Milo* UHT products, Dairies Thailand 9M2016 revenue grew 3 per cent, on a constant currency basis, on the back of strong demand for its brands, contribution from the newly launched *F&N MAGNOLIA* UHT milk products, increased distribution coverage and effective promotional and trade marketing activities. Taking into account negative foreign exchange translation effects due to the weakening of Thai Baht, Dairies Thailand revenue fell 1 per cent.

Despite the decline in revenue and translation losses, in Singapore Dollar terms, Dairies Thailand 9M2016 PBIT jumped 60 per cent (+67 per cent in constant currency), to $53.9 million against the same period last year. The improvement was due to lower input costs, as well as realised cost savings from manufacturing efficiencies and a one-off cost recovery.

(B) Dairies Malaysia

Dairies Malaysia revenue fell 10 per cent against the same period last year due to higher tactical discounts offered for its canned milk products, impacted further by the depreciation of the Malaysian Ringgit against the Singapore Dollar. On a constant currency basis, Dairies Malaysia 9M2016 revenue would have been flat with the year-earlier period. Supported mainly by favourable input costs, Dairies Malaysia 9M2016 earnings jumped 62 per cent (+81 per cent in constant currency) to $40.9 million.

(C) Dairies Singapore

A rise in Dairies Singapore 9M2016 revenue from the Domestic market was offset by a drop in its Export business. Coupled with higher marketing costs, Dairies Singapore 9M2016 earnings fell 17 per cent.

**BEVERAGES**

Beverages revenue decreased 9 per cent (flat in constant currency) to $447.4 million in 9M2016 compared with the same period last year. The weaker performance was mainly due to lower soft drinks revenue in Malaysia as a result of weaker Ringgit and loss of *Red Bull* sales.

This year, the Group continued its efforts to extend its presence in its new markets of Indonesia, Myanmar, Thailand and Vietnam, with new product launches and increased distribution. The associated brand investments and operating expenses in these new markets, coupled with negative foreign exchange effects contributed to an 23-per cent drop (-13 per cent in constant currency) in Beverages 9M2016 profit to $29.0 million.

(A) Soft Drinks Malaysia

Soft Drinks Malaysia 9M2016 volume increased 7 per cent, despite the loss of contribution from *Red Bull,* due to effective execution of consumer and trade marketing programmes over the Lunar New Year period, such as the limited edition *F&N Sparkling Drinks* Pineapple flavour and *100PLUS* festive packaging. The highly competitive pricing environment caused revenue to decrease 5 per cent, on a constant currency basis. However, translated to the Singapore Dollar, 9M2016 revenue declined 15 per cent against the corresponding period last year. In addition to the lower revenue, higher tactical discounts and the absence of agency margin contribution also eroded gains from favourable product mix, resulting in an overall 26-per cent fall (-18 per cent in constant currency) in Soft Drinks Malaysia 9M2016 PBIT.

(B) Soft Drinks Singapore and New Markets

The introduction of new products – *F&N ICE MOUNTAIN* Sparkling Water, *OISHI* and *COCO LIFE* in Singapore, as well as *100PLUS* and *OISHI* in the Group's new markets of Indonesia, Myanmar and Vietnam – has contributed to revenue growth of 18 per cent. 9M2016 earnings fell 9 per cent, however, on higher marketing spend to support the new product and new market launches.

The introduction of new products, the intensification of marketing campaigns and trade promotions to build customer awareness, and the widening of distribution channels continued to support revenue growth in Indonesia, Myanmar and Vietnam. F&N will continue to expand its presence in these new markets through continuous brand building activities to build brand awareness and market share. These new markets, while providing additional avenues for growth, will take time to yield returns. The Group expects brand investments in these markets to continue over the next few years.

**PUBLISHING & PRINTING**

Revenue gains in the Retail and Distribution businesses aided by strong sales performance in airport retail and high street stores, as well as higher partwork sales in Hong Kong and Singapore, were offset by revenue decline in Publishing and Printing businesses. Lower revenue was recorded in Education Publishing's key markets of the USA and Singapore due to a slow-down in demand. Printing continued to face challenges due to lower domestic and export print volumes. Consequently, Publishing & Printing 9M2016 revenue declined 10 per cent, to $225.6 million.

Investments in the development of digital business, lower margins from US textbook sales, foreign exchange losses and lower revenue widened Publishing & Printing's 9M2016 losses before interest and taxation to $5.6 million, compared to $2.6 million losses in the same period last year.