

message from the **CHAIRMAN**



Charoen Sirivadhanabhakdi
Chairman



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Overview

We have made good progress in executing our plan to move away from the conglomerate business model in the year. I am happy to report that after unanimous shareholder approval in November 2013, the demerger of the Company's property-related business was completed on 9 January 2014. This was effected through a distribution *in-specie* of two Frasers Centrepoint Limited ("FCL") shares for each F&N share, at no cost to shareholders ("FCL Distribution"). FCL was successfully listed on the Singapore Stock Exchange on 9 January 2014. Our strategic actions have not only unlocked significant value for shareholders, but also put us in a position to create two great companies, each with leadership positions and resources to realise their full potential.

Vision 2020

Following the demerger, F&N returned to its roots as a company with businesses mainly in the food and beverage ("F&B") sector. Together with our strategic partner Thai Beverage Public Company Limited (together, ThaiBev F&N Group), we undertook

a strategic review with the goal of bringing about transformational change. Our aim is to increase the size and scale of the ThaiBev F&N Group by leveraging each other's strengths. Vision 2020, a six-year strategic roadmap, was conceived to achieve our goal.

Vision 2020 entails aligning the businesses of ThaiBev F&N Group along a common path to strengthen our leading position in Southeast Asia. We seek to be a company providing customers with better products, creating greater value and delivering sustainable returns to shareholders, at the same time providing enlarged opportunities for our employees. This is to be achieved by driving greater growth, diversity, and professionalism, as well as developing core brands and markets.

Strategic Developments

Our collaboration with the ThaiBev Group, in many aspects, is a natural extension for us. We are able to leverage each other's distribution network, market expertise and reduce cost through economies

of scale, for example, in joint procurement. In Thailand, we are in the advanced phase of capitalising on the strong distribution network of the ThaiBev Group which has over 400,000 points of sale, the largest in Thailand, to launch products like *100PLUS*, *F&N SEASONS* and *F&N NUTRISOY*.

In 2013, Fraser & Neave Holdings Bhd ("F&NHB") began distributing *Oishi*, Thailand's leading green tea brand, in Malaysia. I am pleased to share that the Group will also be launching this product in Singapore in 2015. This collaboration will enable the Group to deepen and widen its presence in the fast-growing RTD tea segment with an established brand.

In keeping with the Group's "Pure Enjoyment. Pure Goodness" consumer promise and addressing growing awareness of healthy lifestyle, we have continued our efforts to reduce the sugar content in our sugar sweetened beverages without compromising taste or acceptance of consumers. F&N has also over the years accelerated our innovation, introduced and

promoted healthier choice options for consumers, including product variants with added nutrients, and/or reduced or no-sugar added, and are also lower in fat.

Capital Management

During the financial year, with shareholders' approval given at an extraordinary general meeting on 28 February 2014, the Company also carried out a capital reduction to achieve a more efficient capital structure. This involved the return of capital amounting to 42 cents for every F&N share held and the reduction of the issued capital of the Company by \$607 million. This is the second such capital reduction in two years. The previous exercise in 2013 involved the return of \$4.7 billion.

Both capital reductions and cash distributions did not result in cancellation of shares or changes to the number of shares held by the shareholders. I would like to thank shareholders for your continued support of our capital management programmes.



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The FCL Distribution and capital reduction exercises were part of our continuous efforts to enhance shareholder value.

The FCL Distribution and capital reduction exercises were part of our continuous efforts to enhance shareholder value. A shareholder who bought 1,000 F&N shares on 1 October 2013 would have enjoyed a total shareholders' return of about 27% on his investment as at 30 September 2014. This takes into account dividend receipts of 18.8 cents (including FCL's interim dividends), cash distribution of 42 cents per share, and market value of \$3,400 and \$3,100 in respect of 2,000 shares in FCL and 1,000 shares in F&N as at 30 September 2014. In comparison, the Straits Times Index one-year return was about 7%. Taken to 14 November 2014 (after the announcement of the year-end results), total shareholders' return was about 23%.

Financial Review

In FY2014, Group revenue rose by 6% to \$2,421 million. Revenue growth was buoyed by Beverages (comprises Beer and Soft Drinks) and Dairies which registered gains of 9% and 6% respectively.

At the operating level, Group Profit before interest and taxation ("PBIT"), before fair value adjustment and exceptional items was 29% higher at \$277 million. The improvement was

driven mainly by favourable product mix, lower input cost and efficiencies in Beverages and Dairies Malaysia. The Group continued to retain leading positions in major ready-to-drink segments in Singapore and Malaysia during the year under review. Included in the Group PBIT was a one-off non-recurring item of \$21 million valuation gain on investment interest retained in a joint venture company.

During the year, our Publishing & Printing ("P&P") business maintained focus on its long-term strategic plans despite challenging operating conditions. Excluding the share of associates' results, P&P has made headway towards recovery.

Group Attributable Profit before fair value adjustment and exceptional items and basic earnings per share on continuing operations were \$144 million and 10 cents respectively, on par with last year (re-stated).

Following the FCL Distribution, the cash distribution of \$607 million and the interim dividend payment of 2.0 cents per share, net asset value per share as at 30 September 2014 was \$1.11. We ended FY2014 with a net cash position of \$219 million.

The FY2014 performance of our F&B and P&P businesses are presented in the CEO Business Review section of this Annual Report.

Subsequent Event

As you know, the Company's shares in Myanmar Brewery Limited ("MBL") have been the subject of a dispute between us and our joint venture partner, Myanmar Economic Holdings Limited ("MEHL"). By a ruling issued on 31 October 2014, the arbitral tribunal did not

accept that US\$246 million was the fair value of the Company's shares, and ordered that MEHL is entitled to purchase the Company's shares in MBL at fair value to be determined by a fresh valuation. At this stage, it is not clear when the valuation will be completed. The Company continues to study ways to maintain our presence in the Myanmar market, which still has growth potential and remains of keen interest to the Group.

Dividends

For FY2014, the Board is pleased to propose a final dividend of 3.0 cents per share. Including the interim cash dividend of 2.0 cents per share paid on 12 June 2014, the total dividend for the year will be 5.0 cents per share. This represents a distribution of 50% of the Group Attributable Profit before fair value adjustment and exceptional items for FY2014, which is in line with our dividend policy. The proposed final dividend is subject to shareholders' approval at the Annual General Meeting to be held on 30 January 2015. If approved, the payout will be made on 16 February 2015.

Outlook

Prices of key F&B raw materials are expected to be lower but remain volatile, balancing upward labour cost pressures. Consumer sentiment in our markets is expected to be affected by the economic climate and government policies. Despite the challenges, there are opportunities available for us to tap into existing and new markets throughout ASEAN.

We are optimistic that the strength of our businesses, our people, our diverse portfolio of leading brands and strong balance sheet will enable us to seize growth opportunities when available.

Acknowledgements

As previously announced, on 8 January 2014, in conjunction with the listing of FCL, Mr Charles Mak, Mr Chan Heng Wing, Mr Philip Eng, Mr Weerawong Chittmittrapap and Mr Panote Sirivadhanabhakdi stepped down from the board to serve on the board of FCL. On behalf of the Board, I would like to record our deepest gratitude for their dedicated service to the F&N Group.

At the same time, I am delighted and privileged to have Tengku Syed Badarudin Jamalullail, Chairman of F&NHB and Mr Timothy Chia, who was previously on the Board, serving us. They both bring with them years of extensive experience, strong business acumen and knowledge which are invaluable to our Group.

I would like to express appreciation to the directors of F&NHB for their able stewardship of this important subsidiary which has delivered consistent growth over many years.

I would also like to thank our customers, suppliers and business associates for their confidence in the Company. With your support, we shall continue with our sustainable growth strategy to create long-term value for our shareholders.

Finally, I would like to commend my management and staff for their commitment, dedication and efforts in contributing towards another year of progress for the Group.

Charoen Sirivadhanabhakdi
Chairman

