CEO Business Review

FOOD & BEVERAGE

distinctive brands

"Looking ahead, we remain focused on our core businesses in Soft Drinks, Dairies and Beer, strengthening our portfolio of brands within a diverse base of geographical markets. Business innovation across all platforms will be continuously pursued to deliver value to our customers and the company."

KOH POH TIONG – CHIEF EXECUTIVE OFFICER

Business Overview

The Food & Beverage ("F&B") division delivered another very satisfactory set of results for the year, supported by strong revenue and profit growth across all business sectors. Revenue grew 16% to $3.3b, PBIT by 37% to $457m, improvement in PBIT margin from 11.7% to 13.8%, marking the second consecutive year of record revenue and profit.

Our Soft Drinks and Dairies reported good profit growth of 35% and 17% respectively, backed by strong volume growth and favourable input costs. Revenue of Dairies, in particular, surpassed $1b for the first time, accounting for close to one-third of F&B revenue. Similarly for Beer, revenue and PBIT grew 22% and 43% respectively, on overall strong fundamentals and contribution by new acquisitions in Indonesia and New Caledonia.

Our results affirm our strategies of focusing on our core businesses of Beer, Soft Drinks and Dairies, investing in our brands at all times, expanding into regional markets, pursuing operational excellence and driving innovation. In line with this focus, we divested our glass container business during the year. This resulted in a substantial gain of $161m for the Group.

REVENUE INCREASED 16% TO

$3.309B

PBIT INCREASED 37% TO

$457M

** before discontinued operations, interest, tax, fair value adjustment and exceptional items*

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To prime the business for long term growth, we made several strategic investments in this financial year. We started with the successful acquisitions of Indonesia's No. 1 beer *BINTANG* brand, and controlling interest in the market leaders in Indonesia and New Caledonia. These acquisitions further consolidated our position in ASEAN and realised our ambition to be the leading brewery group in Asia Pacific. Thereafter, we subscribed to a 23% stake in Cocoaland Holdings Bhd and entered into a conditional agreement to acquire 100% of King's Creameries (S) Pte Ltd. The former investment allowed us to leverage and strengthen our capabilities to expand our range of food products; while the latter, subject to regulatory approval, will enable us to scale up and strengthen our ice cream business with the aim of becoming a leading ice cream player in ASEAN. We will continue to pursue strategic acquisitions that will enable us to consolidate and/or expand our footprint in the Asia Pacific region and grow our F&B business.

In line with our strategy to expand and increase our presence in the regional markets, we have launched our flagship *100PLUS* brand in Indonesia, making it the 18th country where this award-winning isotonic drink will be served.

Knowing that air travel increases the risk of dehydration, we tied up with AirAsia, another Malaysian icon, to sell *100PLUS*, which is specially formulated to refresh, rehydrate and re-energise the body faster than water, on board all its flights departing from Malaysia. Following closely after AirAsia, *100PLUS* is now available on board Jetstar, Tiger Airways and Silkair flights.

In Singapore, under the transitional arrangement with The Coca-Cola Company ("TCCC"), we regained the marketing and distribution of some of our soft drinks brands during the year. Upon the expiry of the licensing agreement with TCCC in September 2011, we will enjoy the homecoming of all of our soft drinks brands and their full income. Meanwhile, we expanded our beverage portfolio with the launch of *SEASONS* Green Tea in both Singapore and Malaysia, as well as *ICE MOUNTAIN* water in Malaysia, the leading water brand in Singapore. The appointment of distributorship for *RED BULL* energy drink in Malaysia was yet another strategic alliance to extend a full beverage portfolio to our customers and consumers. We will continue to widen our portfolio and launch new products that embrace F&N's philosophy of *Pure Enjoyment. Pure Goodness* to meet the health and wellness needs of our consumers.

In line with sustaining top-line growth, besides continued marketing initiatives to boost our profile and demand of our products, future supply of dairy products will be met by the state-of-the-art dairy plant at Rojana, Thailand, which is also the biggest canned milk plant in the region. Construction of the second state-of-the-art dairy plant at Pulau Indah, Malaysia has commenced and is on schedule for completion by end-2011. These two substantial investments underscore our commitment and lay a firm platform for future business growth in the domestic as well as overseas markets.

Soft Drinks

Sparkling Performance

The Soft Drinks division enjoyed a sparkling year with revenue and profits recording double-digit growth. While revenue grew by 23% to $669m, PBIT leapt 35% to $82m. *100PLUS* and *SEASONS* spearheaded the revenue leap with an impressive 21% and 24% growth in volume respectively. This performance was achieved on the back of strong market positions garnered by innovative marketing programmes, product innovations, strong sales and distribution network, greater cost savings and increased organisational efficiencies.

Our F&B multi-brand portfolio has always been driven by its overarching philosophy of *Pure Enjoyment. Pure Goodness*. Our strong emphasis on understanding and meeting of consumer needs, health issues and changing tastes, has resulted in a multi-brand portfolio that fulfils the various refreshment, hydration, rejuvenation, nutrition, health and wellness that consumers need. The five key values of F&N F&B Brand are *Trust, Thoughtfulness, Excitement, Innovation* and *Progressiveness*.

SOFT DRINKS

REVENUE INCREASED 23% TO

$669M

PBIT INCREASED 35% TO

$82M

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National Heroes

With the aim to promote active lifestyle and healthy living, *100PLUS* has been at the forefront of all major sporting events as the isotonic drink of choice. *100PLUS* consistently encourages consumers and athletes alike to *Outdo Yourself*. The *100PLUS Thomas Cup 1 Million Support Campaign* launched in Malaysia was a celebration of excellence and national pride. The campaign came to a close when Datin Paduka Seri Rosmah Mansor, the patron of Malaysia badminton association, became the one-millionth signatory. Datin Seri Rosmah presented the book of signatures to World No. 1 and *100PLUS* ambassador, Dato Lee Chong Wei, witnessed by the Malaysian Thomas and Uber Cup team. *100PLUS* was one with its consumers when it gave voice to them to cheer on their national badminton team.

The Razak Cup is one of the oldest and most prestigious domestic competitions held annually in Malaysia since its inception in 1963. *100PLUS'* commitment to the sports fraternity was sealed with a three-year agreement with the Malaysian Hockey Federation for the title sponsorship of the *100PLUS Tun Abdul Razak Cup*.

In Singapore and in a year filled with exciting sports events, *100PLUS* made headlines when it presented *The Straits Times Athlete of the Year Award*. This annual award gives due recognition to athletes who are determined to excel and to bring honour to their sport and country. *100PLUS* also presented *The Straits Times Star of the Month Award*.

Refreshingly New

SEASONS refreshed its portfolio with the introduction of a new green tea and fruit tea range to meet consumer needs for healthier and great tasting beverages. The refreshing additions of Jasmine Green Tea, Ice Lemon Green Tea, Ice Peach Tea and Ice Apple Tea were well received by consumers. The launch was supported by an aggressive through-the-line campaign to spread the health and wellness message.

Juices are one of the fastest growing beverage categories in Malaysia. *Fruit Tree's* roll out of five new juice variants in convenient on-the-go PET bottles met with the approval of its consumers and their lifestyle needs.

Dairies

Leadership in a Competitive Marketplace

The Dairies division delivered a 4% growth in revenue to $1,019m and a commendable 17% growth in PBIT to $71m, despite escalating input costs, strong foreign exchange rates faced by the markets, and domestic political unrest in Thailand.

In Malaysia, the gradual turnaround in the global economy has had a positive effect on the economy and consumer sentiment. The canned milk business remained a key contributor and the division reinforced its leadership with a combined market share of over 65% amidst a highly competitive landscape.

In Thailand, despite recent political crises, consumers' access to our products remained unimpeded. Our products were continuously made available via the wide network of traditional and modern trade outlets with the canned milk portfolio leading the growth of our business.

Innovative Competitive Edge

Innovative products and marketing campaigns continued to be important drivers for the business. The year saw the launches of *F&N* eXtra Sweetened Creamer with Tongkat Ali and Ginseng, *MAGNOLIA* Good Morning and Good Night Low Fat Sterilised Milk and *SUNKIST* Dash juices in on-the-go PET bottles.

The success of the ever-popular *Fruit Tree* range inspired the launch of a fresh addition in June 2010. Innovation came in the form of a new product *Fruit Tree Fresh* Collagen Plus juice range, which was launched to meet consumers' demand for great tasting, healthy and value-added products.

DAIRIES

REVENUE INCREASED 4% TO

$1.019B

PBIT INCREASED 17% TO

$71M

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BEER

REVENUE INCREASED 22% TO

$1.621B

PBIT INCREASED 43% TO

$303M

Beer

Breweries continued to deliver encouraging results for the year, backed by the Group's successes in our regionalisation and expertise in portfolio management. Revenue grew 22% to $1.6b and PBIT surged 43% to $303m.

The Group's brewery business, mainly held through its joint venture brewery group, Asia Pacific Breweries ("APB"), is supported by 37 breweries in 14 countries namely Singapore, Cambodia, China, Indonesia, Laos, Malaysia, Mongolia, Myanmar, New Caledonia, New Zealand, Papua New Guinea, Sri Lanka, Thailand and Vietnam, making us a leading brewer in the region. We offer a winning portfolio, comprising over 40 international, regional and local beer brands and variants, catering to varying consumer tastes and preferences.

Singapore

PBIT rose 16% due to improved performances from domestic and export operations. Overall volume fell 7% mainly due to the transfer of the distribution and management of *Tiger* beer in the United Kingdom ("UK") to Heineken UK in August 2009. Nevertheless, the profitability of our export business still improved significantly as compared to the year before. This was largely due to the fall in operating costs following the transfer of the management of *Tiger* beer to Heineken UK. The stronger performance was also the result of better cost management and higher demand in the export markets beyond the UK.

At home, we continued to sharpen our competitive edge through innovative marketing campaigns and opportunities such as the broadcast sponsorships of FIFA World Cup 2010 and Barclays Premier League. To further enhance our portfolio and distribution channels, the Singapore operations commenced distribution of *Kirin Ichiban* beer locally in January 2010 and secured alliances with the two integrated resorts.

New Zealand

New Zealand posted a PBIT of almost $16m, a threefold improvement from the year before, despite the country's slow recovery from the global recession. The improved performance was attributed to a 4% volume gain, favourable sales mix and the appreciation of New Zealand dollar. Brands such as *Tiger*, *Heineken* and *Tui* saw positive volume growth while the *Monteith's* brand successfully launched the *Monteith's Crushed Apple Cider* to further capitalise on the craft beer market in New Zealand.

brands
that stand out

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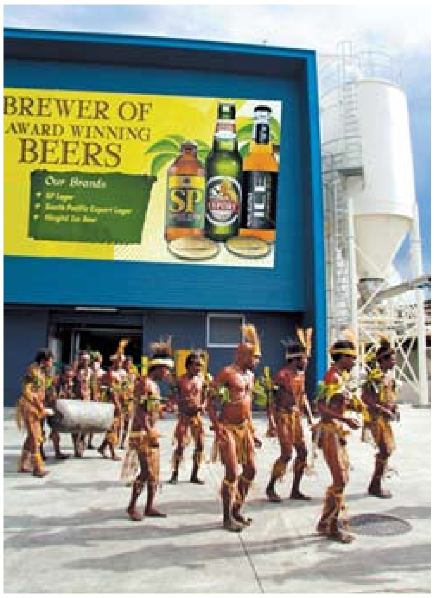

Indochina

Indochina, comprising Cambodia, Laos and Vietnam, remained a high-growth region and the Group's largest contributor to PBIT. Boosted by economic optimism and consumer confidence, particularly in Vietnam, volume expanded 28% while PBIT surged 48%. Organically (excluding translation and gestation losses), PBIT grew 56%.

Vietnam, one of the world's highest potential beer markets, in particular registered a record year. Volumes of *Tiger*, *Heineken* and *Larue* rose significantly over the previous year. To address rising demand, a new bottling line producing 50,000 bottles per hour was commissioned in Danang, Vietnam in August 2010. This investment is part of a multi-phase expansion programme that would double the brewery's capacity in the next few years. Full expansion work is expected to be completed in 2011.

Indonesia and New Caledonia

The Group, through APB, completed its stake acquisitions of PT Multi Bintang Indonesia, Tbk ("MBI"), and Grande Brasserie de Nouvelle Caledonie S.A. ("GBNC") in February 2010. Today, APB owns an effective interest of 80.6% and 87.3% in MBI and GNBC respectively. In FY2010, a further $30m was added to Group PBIT from these new businesses.

MBI, listed on the Indonesia Stock Exchange, operates two breweries on the island of Java, near Jakarta and Surabaya. A leading brewer in Indonesia, MBI is synonymous with the country's iconic *BINTANG* beer brand. In adding *BINTANG* to our already prized brand portfolio comprising *Tiger* and *Heineken*; and participating in the Indonesia beer market via MBI, the Group has further consolidated its leading position in ASEAN.

Like MBI, GBNC too is a leading brewer that serves New Caledonia's most-loved *Number One* beer brand. It operates a brewery in the capital of Noumea. Through GBNC, the Group has secured yet another growth avenue, this time in New Caledonia, and seeks further expansion in the South Pacific where it is also entrenched in Papua New Guinea.

Papua New Guinea

Targeted marketing campaigns and strategic sponsorships of national sporting events such as the local rugby league in Papua New Guinea, have further strengthened the equity of our brands and maintained their visibility. PBIT from this market grew 3% due to better margins from price increase. This was despite a 2% dip in sales volume arising from liquor restrictions imposed in several regions.

Primed for further growth in FY2011

Looking ahead, we remain focused on our core businesses in Soft Drinks, Dairies and Beer, strengthening our portfolio of brands within a diverse base of geographical markets. As Asia continues to offer healthy economic and consumer growth potential, we are optimistic that our strong financial position, strategies of striving for operational excellence and bolstering market leadership through consistent branding efforts should put us in a good stead.

Operational excellence, business innovation and market expansion will remain the key pillars to drive long-term growth. Our two new dairy plants in Thailand and Malaysia will provide the capacity expansion for future business growth in both domestic and overseas markets. 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 continuously pursued to deliver value to our customers and the company. Last but not least, we will strive 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.