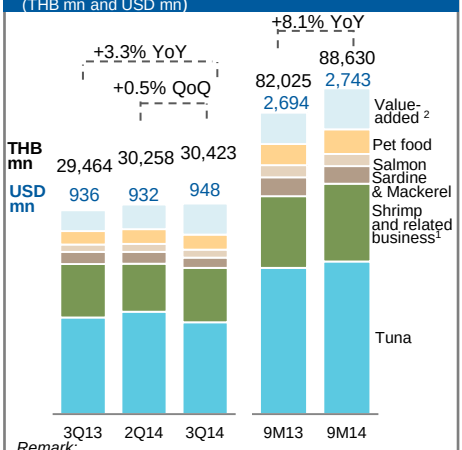
THAI UNION FROZEN PRODUCTS

Investor Note

A Record Quarter with Strong Earnings Growth

Sales
(THB mn and USD mn)



Remark:
[1] Shrimp & related business Includes frozen shrimp & shrimp feed
[2] Value-added & other products includes Ready-to-eat (RTE) products, frozen cephalopod, canned seafood, local products, bakery products, and scraps.

Sales growth driven by weaker THB

- 3Q14 total sales were slightly grew YoY thanks to weaker THB and higher sales of value-added & other products and pet food business. QoQ sales were stable due to lower tuna sales despite higher sales of shrimp & related business and value-added & other products.
- THB depreciation as well as stronger sales from value-added & other products, tuna, shrimp & related business, and pet food drove resilient YoY sales growth for 9M14.
- 9M14 branded business sales increased to 43% of total sales (from 41% in 2013) thanks to stronger sales of the US and EU operation.
- US market showed strongest sales growth thanks to higher sales from the US frozen shrimp trading operation.

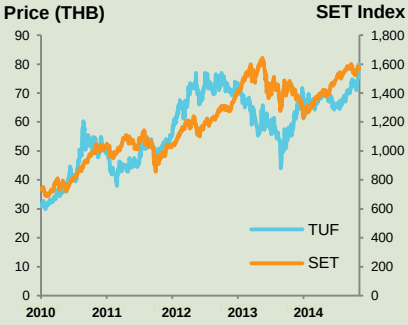
Stock Information
(Bloomberg/ Reuters)
(TUF TB/ TUF.BK)

Share price (10/11/2014) :	THB 80.00
Historical price :	
52-week high	THB 83.00
52-week low	THB 55.00
No. of Shares :	1,192.95m
Par value :	THB 1.0
Market Capitalization :	THB 95.4b
Avg. daily turnover (last 6 months) :	THB 227.0m
Free float :	60.3%
Foreign ownership :	36.6%
Foreign limit :	45.0%

Major shareholders :
(28/08/2014)

Chansiri Family	23.06%
Niruttinanon Family	7.49%
Mitsubishi Corporation	7.58%
Thai NVDR Co., Ltd.	6.68%
Social Security Office	3.64%

Share price performance :



Source: Settrade (10/11/14)

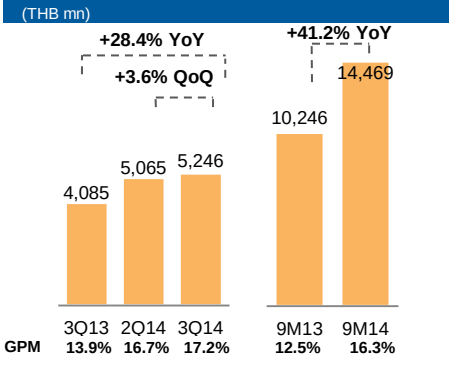
Strong GPM recovery from low fish cost and pet food business

- 3Q14 GPM sharply increased YoY to 17.2% thanks mainly to widened GPM of branded tuna from lower tuna raw material costs and significantly improvement of pet food GPM (USPN reported positive GPM compared to loss making in 3Q13).
- On QoQ basis, GPM continued to improve due to recovery of pet food GPM and higher GPM of shrimp & related business.
- 9M14 GPM improved drastically to 16.3% thanks to higher GPM margin of tuna, shrimp & related business and pet food.

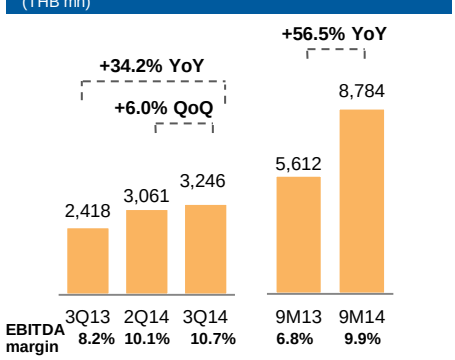
Record earnings in 3Q14 with stronger EBITDA

- 3Q14 EBITDA sharply improved YoY thanks mainly to stronger GPM and higher FX gain. %SG&A to sales was 10.1% from one-off asset impairment at USPN operation*. Excluding this one-off, %SG&A to sales was 9.6% in-line with the guidance. On QoQ basis, EBITDA slightly rose due to improved GPM despite lower FX gain and lower other income.
- 9M14 EBITDA increased to THB8,784mn with EBITDA margin of 9.9% thanks to higher GPM and higher FX gain.
- 3Q14 net profit significantly boosted YoY to THB1,922mn thanks to improved GPM, higher FX gain, and one-off reversal of accrued interest expense (THB215mn) from ECD conversion in October. Net profit also improved QoQ mainly due to one-off reversal of accrued interest expense from ECD conversion.
- 9M14 net profit drastically increased to THB4,393mn due mainly to stronger GPM and higher FX gain.

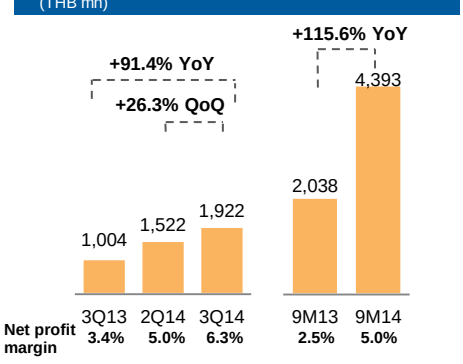
Gross Profit and GPM
(THB mn)



EBITDA and EBITDA margin
(THB mn)



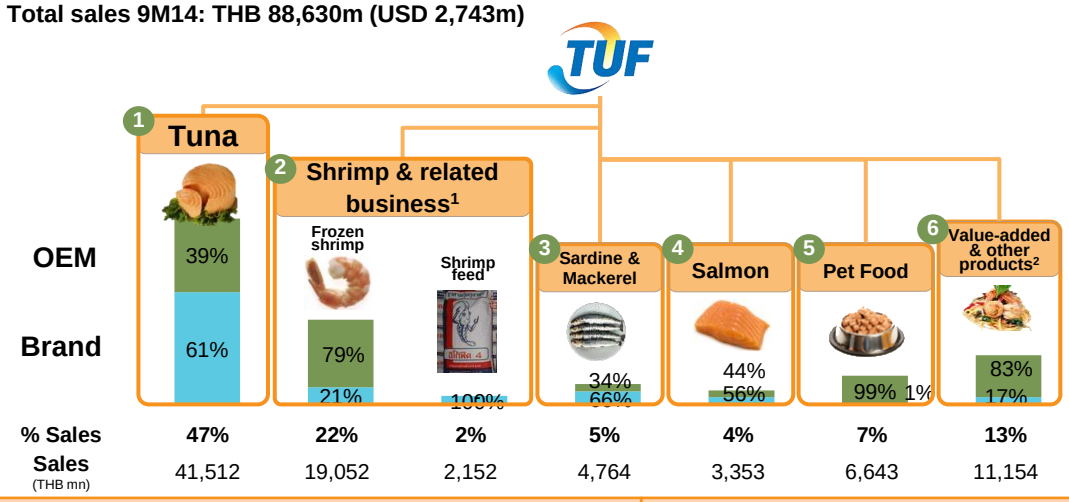
Net Profit and NPM
(THB mn)



*Remark: *There was one-off asset impairment at USPN operations (THB169mn) booked in 3Q14 SG&A*

Performance of 6 Strategic Business Units

Total sales 9M14: THB 88,630m (USD 2,743m)



Remark :
[1]Shrimp & related business includes frozen shrimp and shrimp feed

[2]Value-added & other products includes Ready-to-eat (RTE) products, frozen cephalopod, canned seafood, local products, bakery products, and scrap

Source: *TUF*

Tuna

- Overall tuna sales down 5.0% YoY despite volume up 3.3% YoY as OEM selling prices (and value) fell in line with lower fish cost.
- Branded tuna sales value and volume up YoY and QoQ thanks to more promotional activities supported by low fish cost.
- Good catching and weak demand from certain packers more than offsetting the impact of the periodic FAD ban, depressing the skipjack raw material prices from USD1,800/ton in Jul to USD1,280/ton in Sep with an average price of USD1,560/ton (+5.9% QoQ but -16.5% YoY).
- Overall tuna GPM up YoY thanks to margin expansion of branded tuna that enjoys lower fish costs and higher sales volume. Overall tuna GPM however stable QoQ due to squeezed GPM of OEM tuna due to lower sales volume (delayed purchases by OEM customers) and high cost inventory carried from previous quarters.

Outlook:

- Higher consumption (volume) thanks to low fish cost that supports more promotional activities in most markets.
- Margins to stabilize thanks to a good balance of OEM and brand sales in times of volatile raw material costs.

Shrimp & Related Business[1]

- 3Q14 sales up 1.7% YoY thanks to a shift to higher price value-added frozen shrimp while aqua feed sales down slightly YoY from lower sales volume.
- On QoQ basis, sales however up 13.1% thanks to higher sales of frozen shrimp (higher volume from export and US trading business) as well as higher sales of shrimp feed (higher volume).
- White shrimp raw material prices up 2% QoQ to an average of THB216/kg (60pcs) from THB212/kg in 2Q14, but dropped by 5% YoY from THB228/kg.
- 3Q14 GPM of frozen shrimp slightly up QoQ due to improved GPM of US trading operations from stabilizing shrimp prices albeit lower GPM of frozen shrimp for export.
- GPM of frozen shrimp nevertheless up YoY from higher GPM of frozen shrimp for export and US trading operations.

Outlook:

- Expect gradual recovery of domestic shrimp supply in 2015 from a poor 2014 (est. 200,000 tons) that only started to improve in 4Q14.
- Profitable, though at modest volume, thanks to a higher proportion of value added products (less demand-elastic) for export and consistent US operations with a strong global sourcing capacity.

Sardine & Mackerel

- 3Q14 sales down YoY and QoQ as volume dropped in addition to lower average selling prices of branded sardine during the quarter.
- Overall GPM nevertheless up YoY and QoQ thanks to better GPM of branded and OEM sardine from price adjustments and higher production efficiency during the quarter.

Outlook:

- Margin improvement from the addition of the premium King Oscar branded products.

Salmon

- 3Q14 sales up YoY thanks mainly to the price adjustment.
- Sales stable QoQ due to higher volume of branded business.
- Overall GPM stable QoQ but down YoY due to higher raw material costs.

Outlook:

- Sales growth contributed by the addition of chilled salmon products after the acquisition of MerAlliance.

Performance by 6 Strategic Business Units (cont'd)

Pet Food

- 3Q14 sales up YoY and QoQ due to higher volume (particularly in Q3) and price adjustments.
- Overall GPM up YoY and QoQ thanks to resilient GPM of export business and turnaround at USPN operations.

Outlook:

- Steady sales growth, partly thanks to low fish costs. Margin rebounding after USPN breaking even in 2H14.

Value-Added and Other Products[2]

- 3Q14 sales up sharply YoY due to higher sales volume and the price adjustment.
- Sales up QoQ mainly as a result of higher sales volume.
- Overall GPM down slightly YoY due to lower GPM of other seafood products.
- GPM however up QoQ thanks to higher margin of other seafood products.

Outlook:

- Items, such as lobsters, and domestic business driving sales growth and margins.

3Q14 & 9M14 Financial Statement and Performance

Consolidated Income Statement

(Million baht)	3Q14	% to sales	3Q13	% to sales	2Q14	% to sales	3Q14/ 3Q13 Change	3Q14/ 2Q14 Change	9M14	% to sales	9M13	% to sales	9M14/ 9M13 Change
Sales	30,423	100.0%	29,464	100.0%	30,258	100.0%	3.3%	0.5%	88,630	100.0%	82,025	100.0%	8.1%
Cost of sales	(25,177)	-82.8%	(25,379)	-86.1%	(25,194)	-83.3%	-0.8%	-0.1%	(74,161)	-83.7%	(71,778)	-87.5%	3.3%
Gross profit	**5,246**	**17.2%**	**4,085**	**13.9%**	**5,065**	**16.7%**	**28.4%**	**3.6%**	**14,469**	**16.3%**	**10,246**	**12.5%**	**41.2%**
SG&A expenses	(3,084)	-10.1%	(2,591)	-8.8%	(3,028)	-10.0%	19.1%	1.9%	(8,827)	-10.0%	(7,370)	-9.0%	19.8%
FX gain (loss)	133	0.4%	103	0.3%	141	0.5%	29.0%	-5.5%	528	0.6%	201	0.2%	162.1%
Other income*	289	1.0%	228	0.8%	265	0.9%	26.9%	8.9%	737	0.8%	887	1.1%	-16.9%
EBIT	**2,584**	**8.5%**	**1,825**	**6.2%**	**2,443**	**8.1%**	**41.6%**	**5.8%**	**6,907**	**7.8%**	**3,965**	**4.8%**	**74.2%**
Finance cost	(152)	-0.5%	(406)	-1.4%	(574)	-1.9%	-62.6%	-73.6%	(1,200)	-1.4%	(1,134)	-1.4%	5.8%
EBT	**2,433**	**8.0%**	**1,420**	**4.8%**	**1,869**	**6.2%**	**71.4%**	**30.2%**	**5,706**	**6.4%**	**2,830**	**3.5%**	**101.6%**
Tax	(297)	-1.0%	(266)	-0.9%	(158)	-0.5%	11.6%	88.4%	(756)	-0.9%	(523)	-0.6%	44.6%
Net income	2,136	**7.0%**	1,154	**3.9%**	1,711	**5.7%**	**85.1%**	**24.8%**	**4,950**	**5.6%**	**2,308**	**2.8%**	**114.5%**
Net income (loss) attributable to:													
Equity holders of the Company	**1,922**	**6.3%**	**1,004**	**3.4%**	**1,522**	**5.0%**	**91.4%**	**26.3%**	**4,393**	**5.0%**	**2,038**	**2.5%**	**115.6%**
Non-controlling interests of the subsidiaries	214	0.7%	150	0.5%	189	0.6%	42.8%	12.9%	557	0.6%	270	0.3%	106.3%
Earnings per share											0		
Basic earnings per share	1.67		0.87		1.33		90.9%	25.6%	3.83		1.78		115.7%
Diluted earnings per share	1.49		0.87		1.33		70.3%	12.0%	3.75		1.78		111.2%
Exchange rate											0		
THB/USD	32.09		31.49		32.47		1.9%	-1.2%	32.31		30.45		6.1%
Normalized net profit	**1,856**	**6.1%**	**1,004**	**3.4%**	**1,813**	**6.0%**	**84.8%**	**2.4%**	**4,393**	**6.1%**	**2,038**	**2.5%**	**115.6%**

* Other income incl. share of profit from investments in associates

Statement of Financial Position

(Million baht)	Consolidated				
	3Q14	% to total assets	2013	% to total assets	Change
Cash and cash equivalents*	3,457	3.3%	3,214	3.0%	7.6%
Trade and other receivables	13,454	12.9%	13,948	12.9%	-3.5%
Inventories - net	35,809	34.2%	36,917	34.1%	-3.0%
Other current assets	1,379	20.5%	1,464	1.4%	-5.8%
Total current assets	54,099	51.7%	55,544	51.3%	-2.6%
Fixed assets	21,477	20.5%	21,473	19.8%	0.0%
Other non-current assets	29,060	27.8%	31,273	28.9%	-7.1%
Total assets	**104,636**	**100.0%**	**108,290**	**100.0%**	**-3.4%**
Bank overdrafts and short-term loans	21,297	20.4%	29,375	27.1%	-27.5%
Trade and other payables	11,290	10.8%	9,802	9.1%	15.2%
Current portion of long-term loans	2,998	2.9%	6,791	6.3%	-55.9%
Other current liabilities	2,381	2.3%	3,676	3.4%	-35.2%
Total current liabilities	37,965	36.3%	49,644	45.8%	-23.5%
Long-term borrowings	14,715	14.1%	6,885	6.4%	113.7%
Other non-current liabilities	7,726	7.4%	8,414	7.8%	-8.2%
Total liabilities	**60,406**	**57.7%**	**64,943**	**60.0%**	**-7.0%**
Non-controlling interests of the subsidiaries	3,668	3.5%	3,811	3.5%	-3.7%
Total shareholders' equity	**44,230**	**42.3%**	**43,347**	**40.0%**	**2.0%**
Total liabilities and shareholders' equity	**104,636**	**100.0%**	**108,290**	**100.0%**	**-3.4%**

*Including short-term investment

Relevant Financial Ratios

Ratio	3Q14	2Q14	1Q14	4Q13	3Q13
ROE[1]	18.9%	15.0%	9.5%	8.4%	10.7%
ROA[2]	9.6%	8.8%	6.9%	6.3%	7.1%
A/R days	41	41	43	38	41
Inventory (days)	125	122	135	123	126
Gearing Ratio[3]	1.37	1.49x	1.48x	1.50x	1.46x
ND/E Ratio[4]	0.80x	0.80x	0.83x	0.92x	0.92x

Remark:

[1]ROE = Annualized quarterly net profit / Average total shareholders' equity

[2]ROA = Annualized quarterly EBIT / Average total assets

[3]Gearing ratio = Total liability / Total shareholders' equity

[4]ND/E ratio = Net interest-bearing debt/ Total shareholders' equity, Net interest-beating debt = Total interest-bearing debt – Cash and Cash equivalents

Source: TUF

Financial Statement Analysis

Recorded a historical peak net profit in 3Q14 at THB1,922mn (+91.4% YoY, +26.3% QoQ), thanks mainly to improved gross profit. 3Q14 NPM largely expanded to 6.3% from 3.4% a year ago.

3Q14 total sales slightly rose by 3.3% YoY to THB30,423mn – a seasonally high period - thanks to weaker THB (USD sales were stable YoY at USD948mn while THB slightly weakened against USD by 1.9% YoY). On QoQ basis, sales grew 0.5%.

3Q14 GPM has shown a sign of strong recovery to 17.2%, compared to 13.9% a year ago and 16.7% in 2Q14. Major drivers of GPM improvement are continuously positive raw material price trend (that benefits branded business), a significant turnaround of USPN operation at operating profit level and continuous robust performance of shrimp business despite the ongoing challenges of EMS disease.

For 9M14 performance, it has also presented higher-than-expected improvement of net profit thanks particularly to an improved GPM (from branded business, robust performance of shrimp business and much lower loss of USPN) and higher FX gain. 9M14 NPM rose to 5%, compared to 2.5% in 9M13.

Selling and administrative expenses

- 3Q14 SG&A expenses increased by 19.1% YoY, mainly owing to an increase in sales promotion spending of overseas branded business and an one-off expense on asset impairment at USPN operation. SG&A grew 1.9% QoQ. SG&A as a percentage of sales was 10.1%. Excluding the one-off expense on asset impairment at USPN operation, SG&A as a percentage of sales should have been 9.6%.
- 9M14 SG&A expenses increased by 19.8% YoY as a result of an increase in sales promotion on own brands at overseas subsidiaries and personnel expense. SG&A as a percentage of sales was 10.0%.

FX Gain/loss

- 3Q14 FX gain increased YoY to THB133mn, supported by a stable and favorable exchange rate trend, compared with FX gain of THB141mn in 2Q14 and THB103mn in 3Q13.
- 9M14 FX gain rose YoY to THB528mn, thanks mainly to a favorable exchange rate trend (particularly THB versus USD) during Jan to Sep 2014 (In 2Q13, it was a loss of THB237mn).

Other incomes (including share of income from investment in associates)

- 3Q14 other incomes increased by 26.9% YoY, thanks mainly to higher interest incomes from short-term investments, a higher share of profit from investment in associates and tax coupon. On QoQ basis, other incomes increased by 8.9% due primarily to an increase in the share of profit from investment in associates and tax coupon.
- 9M14 other incomes dropped by 16.9% YoY due mainly to an absence of an one-off insurance compensation (THB215mn booked in 1Q13).

Finance cost

- 3Q14 finance cost significantly decreased by 62.6% YoY and 73.6% QoQ due primarily to a reversal of accrued interest expenses booked in 2Q14 (on an expectation of ECD redemption) amounting to THB215mn. The ECD was however converted into TUF shares in October. The effective interest rate for 9M14 was 3.90%.
- 9M14 finance cost rose by 5.8% YoY due to an increase in the average amount of interest bearing debts, compared to level of a year ago.

Income tax expense

- 3Q14 income tax expenses increased by 11.6% YoY mainly due to higher before-tax earnings at overseas subsidiaries. The effective tax rate was 12.2%, versus 18.7% in 3Q13 and 8.4% in 2Q14. Income tax expenses rose by 88.4% QoQ owing to an absence of tax credit from the US operation booked in 2Q14.
- 9M14 income tax expenses expanded by 44.6% YoY due particularly to an increase in before-tax earnings of overseas subsidiaries.

ND/E ratio

- Net debt-to-equity ratio as of 3Q14 was stable QoQ at 0.80x, versus 0.92x in 3Q13, thanks to better working capital management that reduced leverage.

Inventory days

- Inventory days as of 3Q14 slightly increased to 125 days from 122 days in 2Q14 due mainly to slightly slower inventory turnover. On YoY basis, inventory days were stable.

Accounts receivable days

- Accounts receivable days as of 3Q14 were stable at 41 days QoQ and YoY.

News Update:

Honorable Achievement in Sustainability

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

Sep 2014: TUF is the first and only Thai company in the food category which has been selected as an official member of DJSI Emerging Markets.

TUF is the only Thai company in the food category and also the one of

- 4 food companies in the DJSI Emerging Markets index
- 17 food companies in all of DJSI indices
- 10 Thai companies listed in DJSI various indices

The Dow Jones Sustainability Indices were launched in 1999 as the first global sustainability benchmarks. The indices are offered cooperatively by RobecoSAM and S&P Dow Jones Indices. The family tracks the stock performance of the world's leading companies in terms of economic, environmental and social criteria. Each year, over 3,000 companies, including 800 companies from emerging markets from various industries, are invited to participate in Corporate Sustainability Assessment of RobecoSAM, the investment specialist focused exclusively on Sustainability Investing.

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