Clover Industries Limited

SUMMARISED AUDITED CONSOLIDATED FINANCIAL STATEMENTS

for the twelve months ended 30 June

2014

and cash dividend declaration

FINANCIAL KEY INDICATORS

8,9% ↑ **REVENUE**
Increased to
R8,5 billion

14,3% ↓ **HEPS**
Decreased to
102,7 cents

24,0% ↓ **OPERATING PROFIT**
Decreased to
R282,3 million

12,8% ↓ **HEADLINE EARNINGS**
Decreased to
R187,5 million

21,2% ↓ **PROFIT FOR THE YEAR**
Decreased to
R189,0 million

3,3% ↓ **OPERATING MARGIN**
Decreased from 4,7%

0,0% ↔ **TOTAL DIVIDEND PER SHARE FOR THE YEAR**
Maintained at
32 cents

* The results of the corresponding previous period have been restated as explained in the commentary section of this report.

DIRECTORATE AND STATUTORY INFORMATION

Directors: Non-executive

WI Büchner (Chairman)
TA Wixley# (Lead Independent)
SF Booysen (Dr)#
JNS du Plessis#
MG Elliott**
JC Hendriks (Dr)***
NP Mageza**
N Mokhesi*#
B Ngonyama*#
NA Smith
PR Griffin****

Independent
* *Directors who were appointed on 26 November 2013*
** *Directors who have retired/resigned on 26 November 2013*
*** *Director who has retired/resigned 13 March 2014*
**** *Director who was appointed on 13 March 2014*

Directors: Executive

JH Vorster *(Chief Executive)*
LJ Botha *(Chief Financial Officer)*
CP Lerm (Dr)

Company Secretary
J van Heerden

Ordinary share code: CLR ISIN: ZAE000152377

Registered office: 200 Constantia Drive, Constantia Kloof, 1709

Postal address: PO Box 6161, Weltevredenpark, 1715

Telephone: (011) 471 1400

Registration number: 2003/030429/06

Tax number: 9657/002/71/4

Transfer secretary:
Computershare Investor Services Proprietary Limited
70 Marshall Street, Johannesburg, 2001

Auditors: Ernst & Young Inc.

Bankers: The Absa Group, First National Bank, Investec Bank

Sponsor: Rand Merchant Bank (a division of FirstRand Bank Limited)

OPERATIONAL REVIEW

The year under review proved exceptionally challenging for consumers, producers and the dairy industry as a whole. Against a backdrop of a weakening rand, rising CPI and high food inflation, these systemic issues were further impacted by one of the most protracted series of industrial actions in our democracy's history.

The net effect was a decrease in earnings per share of 30,8 cents, down 23,1% and a decrease in headline earnings per share of 17,2 cents, some 14,3% lower than the comparative year.

For Clover, the following factors impacted on the business:

- **Costs:** We experienced strong overall inflationary cost pressures, especially on packaging and ingredient costs (which are dollar-based). In addition, we increased the price we pay for raw milk to ensure on-farm sustainability.

  These cost increases could not immediately be recovered due to a very constrained trading environment and weakened discretionary consumer spend which necessitated a gradual price increase strategy.
- **Lower sales volumes** as a result of further selling price increases;
- **The erosion of sales volumes** due to rising inflation, especially in the non-alcoholic beverages segment; and
- **A milk shortage during the winter** following Clover's rebalancing of its milk purchasing agreements in preparation for its exit from supplying raw milk at cost to Danone Southern Africa on 1 January 2015.

Headline earnings decreased by 12,8% from R214,9 million at 30 June 2013 to R187,5 million for the year under review. This decrease in headline earnings constitutes a 19,9% reduction in headline operating profit (R69,0 million), a 23,7% (R11,1 million) increase in net finance costs, a 47,6% (R47,1 million) decrease in headline income tax and a 87,8% (R1,1 million) increase in non-controlling interests.

Revenue increased by 8,9% to R8 530 million from R7 833 million, whilst operating profit was lower at R282,3 million from R371,6 million in the prior year, representing a contraction of 24,0% for the year under review. Operating margin decreased from the 4,7% reported in the prior year to 3,3%.

Revenue from sale of product increased by 8,9% with average price inflation for the year of 11%. Overall sales volumes declined by 0,8%. Excluding the effect of the exit from the Famous Brands bulk mozzarella cheese business during the comparative period, and the Nestle Pure Life water volumes, which only contributed to the current year volumes, sales volumes declined by 2,7%.

Clover's Margin on Material (MOM) for the dairy fluids product group (mostly UHT and fresh milk which make up the bulk of its raw milk usage) has weakened as a result of Clover's strategy to gradually recover farm gate milk price and packaging cost increases in the prevailing environment to minimise market share losses in the process. The UHT and fresh milk market conditions during the second half of the year required a cautious approach to selling price increases.

Interest-bearing debt for the year ended only R37,6 million higher than the previous year although the average debt levels throughout the year were consistently higher than in the previous year. The reduction in profitability was largely offset by non-cash expenditure and a release of cash from working capital, mainly from much lower inventory levels following the milk shortage during the last quarter of the year. Consequently the increase in net finance charges was contained to R11,1 million.

The effective tax rate reduced from 29,2% to 20,9%. Included in profit before tax is the gain by Clover Waters on the acquisition of the Nestlé water business. In terms of IFRS this amount of R20,7 million is disclosed after tax and the related deferred tax expense is therefore not included in the tax expense. This reduced the effective tax rate by 2,4%. The effective tax rate was reduced by a further 2,6% through the recognition of a deferred tax asset relating to the assessed loss in the Real Beverages Company not previously recognised. In terms of IFRS, the Group's share of Clover Fonterra Ingredients net after tax income is now equity accounted and has to be shown above the profit before tax line although it represents an after tax profit. This contributed to a 1,7% reduction in the effective tax rate. In addition, prior year tax adjustments accounted for a further 1,5% reduction in the effective tax rate.

INVESTMENT AND FUNDING

The raw milk shortage experienced during the last quarter of the year under review depleted UHT and cheese stocks to a large extent. Inventory levels accordingly dropped by R115,3 million. Trade receivables increased by only 1,3% despite the growth in revenue. With effect from 1 June 2013 Danone Southern Africa began to take over the credit control of its major customers that were previously managed by Clover and this process was completed in the 2013/14 financial year. For that reason, as well as, the milk shortage and resulting lower sales towards the end of the year, accounts receivable did not grow in line with the growth in revenue.

The 38,6% gearing level at 30 June 2014 was lower than the 39,7% at 30 June 2013. The Group's gearing is well within its ability to service interest and repayments and it has capacity to extend its gearing considerably to fund future growth.

Cash generated from operations, before working capital changes, was R338,4 million compared to R396,8 million reported in the prior year. This lower cash generation followed mostly from the lower profit for the year. However, during the year under review, working capital released R64,6 million of cash compared to the cash absorption of R177,6 million in the prior year. Final cash from operations increased by 83,9% to R403,1 million.

Investment activities consumed R351,7 million in cash compared to R515,8 million in the previous year. The final capital expenditure on project Cielo Blu amounted to R64,5 million. The total capital expenditure for the year came to R388,0 million against which government grants of R32,1 million were received.

PROSPECTS

We expect the current subdued operating environment to continue for the foreseeable future, given the current cycle of interest rate increases, a low growth economy, rising unemployment and the aftermath of the protracted labour actions that have to work their way through the economy.

Despite some of the most challenging trading conditions in recent history, we will continue to deliver on our targets which include volume and market share growth, the reduction of overall costs, especially in the supply chain.

As demonstrated by the success of our new platforms in difficult economic conditions, the successful execution of our expansion plans for new value-added products and platforms is imperative. This will allow us to leverage our iconic brand and production capacity as well as expanding our business further into sub-Saharan Africa.

Management will continue to deliver against the Group's strategy of identifying and consolidating long-term growth opportunities that will ensure a sustainable return on investment.

Some important initiatives in the year ahead include:

- Continued research and development of new products
- Re-entry into the yoghurt and custard market
- A methodical upgrade of our ageing IT infrastructure
- Maximising our collaboration with the trade – which is dependent on an upgraded IT system
- Continued focus on safety, health and the environment, especially with regards to emissions, waste and water consumption.

Consumer spending is expected to increasingly come under pressure, which along with inflationary costs pressures will see further market consolidation.

We believe that the anticipated industry consolidation will play an important role in ensuring a robust market that will continue to deliver against the growing needs of consumers and contribute to regional food security.

The discontinuation of the Danone services will have some financial implications on Clover, which will be managed by a combination of reducing costs, replacing some of the lost business with other third party services and Clover's own growth. However, in the short term there may be a delay in replacing the lost fee income.

For a number of years now, some retail groups have indicated that they would like to perform their own distribution services to their own stores, which is currently been done by Clover. Nothing to this effect has happened yet, but there are constant discussions with some retail groups in this regard. If they persist, this could lead to a further loss in fee income for Clover, but could be managed more easily than the exit from the Danone services as the direct costs associated with not servicing an entire channel are easier to eliminate.

DIVIDEND DECLARATION

Notice is hereby given that the directors have declared a final gross cash dividend of 16,00000 cents (13,60000 cents net of dividend withholding tax) per ordinary share for the year ended 30 June 2014, payable in South African currency on Monday, 13 October 2014.

The company declared and paid an interim dividend of 16,00000 cents per share during April 2014 which together with the final dividend, will bring the total dividend for the current financial year to 32,00000 cents. This is equal to the dividend paid in the previous financial year which is in line with the company's dividend policy to at least maintain dividends in the event of HEPS ending lower than the prior financial year.

The dividend has been declared from income reserves. The company did not have any Secondary Tax on Companies credits to reduce the dividend withholding tax liability.

A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt.

The Company income tax number is 9657/002/71/4.

The issued ordinary share capital at the declaration date is 182 478 589 ordinary shares.

The salient dates will be as follows:

Last day to trade "cum" the ordinary share dividend	Friday, 3 October 2014
Shares commence trading "ex" the ordinary share dividend	Monday, 6 October 2014
Record date on	Friday, 10 October 2014
Payment date on	Monday, 13 October 2014

Share certificates may not be dematerialised or rematerialised between Monday, 6 October 2014 and Friday, 10 October 2014, both days inclusive.

On behalf of the Board

WI Büchner
Chairman

JH Vorster
Chief Executive

15 September 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended	30 June 2014 R'000	30 June 2013 Restated R'000
Sales of products	**7 192 650**	6 605 356
Rendering of services	**822 040**	801 755
Sale of raw milk	**511 485**	420 508
Rental income	**4 062**	5 292
Revenue	**8 530 237**	7 832 911
Cost of sales	**(6 291 191)**	(5 712 404)
Gross profit	**2 239 046**	2 120 507
Other operating income	**48 916**	61 860
Selling and distribution costs	**(1 770 510)**	(1 558 404)
Administrative expenses	**(195 567)**	(204 018)
Restructuring expenses	**(16 036)**	(35 750)
Other operating expenses	**(23 573)**	(12 571)
Operating profit	**282 276**	371 624
Finance income	**7 234**	9 715
Finance cost	**(65 043)**	(56 432)
Share of profit in a joint venture after tax	**14 306**	13 974
Profit before tax	**238 773**	338 881
Taxes	**(49 791)**	(99 022)
Profit for the year	**188 982**	239 859
Other comprehensive income		
Other comprehensive income to be reclassified to profit of loss in subsequent periods:		
Exchange differences on translations of foreign operations	**2 565**	(272)
Total comprehensive income for the year, net of tax	**191 547**	239 587
Profit attributable to:		
Equity holders of the parent	**186 666**	238 626
Non-controlling interests	**2 316**	1 233
	188 892	239 859
Total comprehensive income attributable to:		
Equity holders of the parent	**189 231**	238 354
Non-controlling interests	**2 316**	1 233
	191 547	239 587

HEADLINE EARNINGS AND HEADLINE EARNINGS PER SHARE CALCULATION

For the year ended	30 June 2014 R'000	30 June 2013 R'000
Headline earnings calculation		
Profit for the period attributable to equity holders of the parent company	**186 666**	238 626
Gross remeasurements excluded from headline earnings	**2 516**	(24 050)
Loss/(profit) on sale and scrapping of property, plant and equipment	**5 102**	(11 680)
Gain on fair valuing of existing investment in joint venture due to gaining control	**–**	(16 747)
Discount on acquisition of PPE by Clover Waters through issue of shares	**(20 716)**	–
Non-controlling interest's portion in discount on acquisition off PPE by Clover Waters through issue of shares	**6 215**	–
Impairment of plant and equipment	**11 915**	4 377
Taxation effects of remeasurements	**(1 718)**	318
Headline earnings attributable to shareholders of the parent company	**187 464**	214 894
Issued ordinary shares	**182 478 589**	181 218 149
Number of ordinary shares used in the calculation of:		
Earnings per share		
– weighted average	**182 478 589**	179 267 674
Diluted earnings per share		
– weighted average	**191 767 408**	192 750 186
Earnings per share attributable to ordinary equity holders of the parent		
Earnings per share (cents)	**102,3**	133,1
Diluted earnings per share (cents)	**97,3**	123,8
Headline earnings per share (cents)	**102,7**	119,9
Diluted headline earnings per share (cents)	**97,8**	111,5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at	**30 June 2014 R'000**	30 June 2013 Restated R'000	30 June 2012 Restated R'000
Assets			
Non-current assets			
Property, plant and equipment	**1 818 113**	1 517 233	1 168 047
Investment properties	**1 380**	2 003	492
Intangible assets	**447 493**	445 283	357 767
Share of investment in a joint venture	**35 066**	32 963	22 987
Deferred tax assets	**8 919**	6 722	124
	2 310 971	2 004 204	1 549 417
Current assets			
Inventories	**567 892**	683 159	568 355
Trade and other receivables	**1 022 993**	1 010 251	964 587
Prepayments	**16 194**	15 273	25 631
Other current financial assets	**–**	132	173
Income tax receivables	**33 877**	–	–
Cash and short-term deposits	**653 889**	704 559	709 114
	2 294 845	2 413 374	2 267 860
Assets classified as held-for-sale	**3 776**	359	423
Total assets	**4 609 592**	4 417 937	3 817 700

CONSOLIDATED STATEMENT OF FINANCIAL POSITION continued

As at	30 June 2014 R'000	30 June 2013 Restated R'000	30 June 2012 Restated R'000
Equity and liabilities			
Equity			
Issued share capital	**9 124**	9 061	8 955
Share premium	**734 414**	713 263	675 113
Other reserves	**283 225**	272 205	262 161
Foreign currency translation reserve	**(5 582)**	(8 147)	(7 875)
Retained earnings	**1 231 089**	1 126 734	955 890
Equity attributable to equity holders of the parent	**2 252 270**	2 113 116	1 894 244
Non-controlling interests	**20 471**	2 309	1 796
Total equity	**2 272 741**	2 115 425	1 896 040
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	**662 357**	666 640	21 686
Provisions	**67 615**	60 814	61 637
Deferred tax liability	**179 023**	137 313	116 950
Trade and other payables	**4 351**	9 267	6 904
	913 346	874 034	207 177
Current liabilities			
Trade and other payables	**1 186 674**	1 218 848	1 271 366
Interest-bearing loans and borrowings	**214 495**	172 646	421 376
Other current financial liabilities	**2 323**	250	4 308
Income tax payable	**–**	16 723	5 604
Provisions	**20 013**	20 011	11 829
	1 423 505	1 428 478	1 714 483
Total liabilities	**2 336 851**	2 302 512	1 921 660
Total equity and liabilities	**4 609 592**	4 417 937	3 817 700

SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended	30 June 2014 R'000	30 June 2013 R'000
Balance at 1 July	**2 115 425**	1 896 040
Profit for the year	**188 982**	239 859
Other comprehensive income	**2 565**	(272)
Total comprehensive income	**191 547**	239 587
Share-based payment reserve accrued	**17 351**	18 407
Share appreciation rights exercised, net of tax	**(24 551)**	(37 134)
Ordinary shares issued	**21 214**	38 734
Non-controlling interest allocated in Clover Waters acquisition	**16 807**	–
Discount on acquisition of Clover Waters	**4 218**	–
Dividends of subsidiaries – non-controlling interest	**(961)**	(720)
Dividends	**(69 342)**	(41 912)
Dividends forfeited	**1 033**	2 423
Balance at end of the year	**2 272 741**	2 115 425
Consists of:		
Share capital and premium	**743 538**	722 324
Other capital reserves	**277 643**	264 058
Retained earnings	**1 231 089**	1 126 734
Shareholder equity	**2 252 270**	2 113 116
Non-controlling interest	**20 471**	2 309
Total equity	**2 272 741**	2 115 425

SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended	30 June 2014 R'000	30 June 2013 Restated R'000
Operating activities		
Profit before tax	**238 773**	338 881
Adjustment for non-cash items	**179 885**	118 654
Working capital adjustments	**64 648**	(177 638)
Income tax paid	**(80 239)**	(60 699)
Net cash flow from operating activities	**403 067**	219 198
Investing activities		
Proceeds from sale of property, plant and equipment	**1 166**	17 599
Interest received	**7 234**	9 715
Acquisition of non-controlling interest	**–**	(24 700)
Acquisition of subsidiary	**–**	(70 556)
Government grant received recognised against property, plant and equipment	**32 106**	–
Capital expenditure: Tangible and intangible assets	**(387 999)**	(454 400)
Net other investing activities	**(4 241)**	6 532
Net cash flows used in investing activities	**(351 734)**	(515 810)
Financing activities		
Interest paid	**(65 043)**	(56 432)
Dividends paid	**(69 342)**	(41 912)
Repayment of preference share liability	**–**	(259 382)
Net increase/(repayment) of borrowings	**37 566**	655 605
Net other financing activities	**(961)**	(720)
Net cash flows (used in)/from financing activities	**(97 780)**	297 159
Net (decrease)/increase in cash and cash equivalents	**(46 447)**	547
Net foreign exchange differences	**(4 223)**	(5 101)
Cash and cash equivalents at the beginning of the year	**704 559**	709 113
Cash and cash equivalents at the end of the year	**653 889**	704 559

1. Corporate information and basis of preparation

These summarised consolidated financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), its interpretations issued by the IFRS Interpretations Committee, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, presentation and disclosure as required by IAS 34 Interim Financial Reporting, the JSE Listings Requirements and the requirements of the Companies Act of South Africa. The accounting policies are consistent in all material respects with those of the previous financial period, except for:

- IAS 19: Employee Benefits (effective 1 January 2013)
- IFRS 10: Consolidated Financial Statements (effective 1 January 2013)
- IFRS 11: Joint Arrangements (effective 1 January 2013)
- IFRS 12: Disclosure of Interest in Other Entities (effective 1 January 2013)
- IFRS 13: Fair Value Measurement (effective 1 January 2013)

Only IFRS 11 required restatement, the effect of the restatement is set out in note 2.

2. Share of investment in joint ventures

Clover Industries indirectly holds a 51% interest in Clover Fonterra through Clover SA. Clover Fonterra is involved in the marketing and distribution of dairy-related products.

The Group has classified the interest in Clover Fonterra as a joint venture despite the fact that the Group owns more than 50% of the issued share capital. The shareholders' agreement is set out in such a way that unanimous consent between the two shareholders is required for any decisions regarding the relevant activities of the investee. Therefore the Group concluded that they have joint control over the investee.

Under IAS 31 Investment in Joint Ventures (prior to the transition to IFRS 11), the Group's share of the assets, liabilities, revenue, income and expenses were proportionally consolidated in the consolidated financial statements. Upon adoption of IFRS 11, the Group has determined its interest to be a joint venture and it is required to be accounted for using the equity method. As a result Clover had to restate its comparative figures.

2. Share of investment in joint ventures continued

Up to 31 October 2012, Clover Industries indirectly held a 50,1% interest in Clover Manhattan (Pty) Ltd. Effective 1 November 2012, Clover Manhattan (Pty) Ltd became a full subsidiary of Clover SA. Clover Manhattan, was involved in the manufacture, marketing and distribution of iced tea. With effect from 1 January 2013 the Clover Manhatten business was transferred into Clover SA by way of a dividend and Clover Manhattan (Pty) Ltd was subsequently applied for to be deregistered.

The Group has classified the interest in Clover Manhattan as a joint venture despite the fact that the Group owns more than 50% of the issued share capital. The shareholders' agreement is set out in such a way that unanimous consent between the two shareholders is required for any decisions regarding the relevant activities of the investee. Therefore the Group concluded that they have joint control over the investee.

Under IAS 31 Investment in Joint Ventures (prior to the transition to IFRS 11), the Group's share of the assets, liabilities, revenue, income and expenses were proportionally consolidated in the consolidated financial statements. Upon adoption of IFRS 11, the Group has determined its interest to be a joint venture and it is required to be accounted for using the equity method. As a result Clover had to restate its comparative figures.

The effect of applying IFRS 11 is as follows:

Clover Fonterra

Impact on the statement of consolidated comprehensive income	For the year ended 30 June 2013 R'000	For the year ended 30 June 2012 R'000
Decrease in reported revenue	(146 268)	(168 816)
Decrease in cost of sales	116 075	142 031
Decrease in gross profit	(30 193)	(26 785)
(Decrease)/increase in other operating income	(79)	28
Decrease in selling and distribution costs	10 508	9 510
Decrease in operating profit	(19 764)	(17 247)
Decrease in finance income	–	(44)
Decrease in finance costs	12	212
Increase in share of profits of joint venture	14 221	12 297
Decrease in profit before tax	(5 531)	(4 782)
Decrease in income tax expense	5 531	4 782
Net impact on profit after tax	–	–

Impact on the statement of consolidated financial position	As at 30 June 2013 R'000	As at 30 June 2012 R'000
Increase in investment in joint venture	32 963	22 038
Decrease in deferred tax asset (non-current)	(727)	(370)
Decrease in inventories and trade receivables (current)	(35 062)	(57 763)
Decrease in cash and short-term deposits (current)	(13 503)	(2 357)
Decrease in trade and other payables (current)	15 247	38 032
Decrease in income tax payable (current)	674	70
Decrease in provisions (current)	408	350
Net effect on equity	–	–

Impact on the consolidated statement of cash flows	For the year ended 30 June 2013 R'000	For the year ended 30 June 2012 R'000
Operating	14 221	(12 297)

Clover Manhattan

Impact on the statement of consolidated comprehensive income	For the year ended 30 June 2013 R'000	For the year ended 30 June 2012 R'000
Decrease in reported revenue	(17 282)	(37 546)
Decrease in cost of sales	11 770	25 056
Decrease in gross profit	(5 512)	(12 490)
Decrease in other operating income	–	(282)
Decrease in selling and distribution costs	5 514	10 896
Increase/(decrease) in operating profit	2	(1 876)
Decrease in finance income	(1)	(4)
(Decrease)/increase in share of profits of joint venture	(248)	1 120
Decrease in profit before tax	(247)	(760)
Decrease in income tax expense	247	760
Net impact on profit after tax	–	–

Impact on the statement of consolidated financial position	As at 30 June 2013 R'000	As at 30 June 2012 R'000
Increase in investment in joint venture	–	949
Decrease in inventories and trade receivables (current)	–	(8 171)
Decrease in trade and other payables (current)	–	7 222
Net effect on equity	–	–

Impact on the consolidated statement of cash flows	For the year ended 30 June 2013 R'000	For the year ended 30 June 2012 R'000
Operating	248	(1 120)

3. Segment reporting

The following information regarding the Group's product groups, for which no discrete financial information is available, are presented on voluntary basis.

The Group comprises the following main product groups:

- dairy fluids product group is focused on providing the market with quality dairy fluid products;
- the dairy concentrated products consist of cheese, butter, condensed milk and retail milk powders;
- the ingredients products consist of bulk milk powders, bulk butter, bulk condensed milk, bulk creamers, calf feed substitutes, whey powder and buttermilk powder;
- the non-alcoholic beverages product group focuses on the development and marketing of non-alcoholic, value-added branded beverages; and
- other consists of Clover's holding company and Lactolab Proprietary Limited that renders laboratory services.

For the year ended	**30 June 2014 R'000**	30 June 2013 Restated R'000
External revenue from sale of products*		
Dairy fluids	**3 858 841**	3 404 737
Dairy concentrated products	**1 128 758**	1 054 741
Ingredients	**265 599**	264 344
Non-alcoholic beverages	**1 930 094**	1 870 962
Other	**9 358**	10 572
	7 192 650	6 605 356
Margin on material		
Dairy fluids	**1 439 256**	1 311 959
Dairy concentrated products	**319 659**	327 440
Ingredients	**68 878**	56 710
Non-alcoholic beverages	**973 475**	981 427
Other	**7 346**	8 157
	2 808 614	2 685 693

*External revenue excludes revenue from the sale of raw milk.

Assets, liabilities and overheads are managed on a Group basis and are therefore not allocated to the product groups.

The Group operates mainly in the geographical area of South Africa. The revenue and assets of the operations outside South Africa are insignificant.

4. Earnings per share

The difference between earnings per share and diluted earnings per share is due to the impact of unexercised share appreciation rights.

5. Property, plant and equipment and intangible assets

During the year under review the Group acquired property, plant and equipment to the value of R375,0 million and also acquired intangible assets at a cost of R13,0 million.

6. Share capital and share premium

The share premium account increased by R21,2 million from the prior financial year after the settlement of vested executive management share appreciation rights by the issue of new ordinary shares.

7. Acquisition of interest in Clover Waters Proprietary Limited

Clover entered into an agreement with Nestle (South Africa) Proprietary Limited to form a new entity, Clover Waters Proprietary Limited, that acquired Nestle's Gauteng-based Doornkloof property, bottled water manufacturing facility and water rights. This newly formed entity will have the right by way of licence, to manufacture, distribute, market and sell bottled mineral water under Nestle's Pure Life, Valvita and Schoonspruit brands as well as ice tea under the Nestea brand. These brands will complement Clover SA's Aquartz bottled water and Manhattan ice tea brands which will also be manufactured, distributed, marketed and sold by Clover Waters.

Clover SA effectively holds 70% of the shares in Clover Waters and Nestle (South Africa) 30%. The effective date of the transaction was 1 August 2013, and was funded by means of an assets for share swap arrangement to the value of R35,0 million.

The Group has elected to measure the non-controlling interest in Clover Waters Proprietary Limited at fair value.

Non-controlling interest has been classified as a level 3 fair value.

The fair value of non-controlling interest has been determined by obtaining an independent valuation on the property, plant and equipment and by utilising the discounted cash flow (DCF) method to value the intangible assets.

The independent valuators ("The Property Partnership") determined the fair value of land and buildings by using the capitalisation of future rentals technique. It was based on an expected net annual rental income of R3,7 million and a rental capitalisation into perpetuity factor of 12,5%.

The plant and machinery's fair values were determined by calculating the net replacement value of the plant and machinery. This was calculated by obtaining gross replacement values for the plant and machinery and adjusting it to take into consideration the expected useful lives of the plant and machinery and its current condition.

The discounted cash flow valuation of the intangible assets were based on the following inputs: estimated annual free cash flow of R3,9 million, free cash flow growth per annum of 7,5% and a discount rate of 15,36%.

7. Acquisition of interest in Clover Waters Proprietary Limited continued

The fair value of the identifiable assets and liabilities of Clover Waters Proprietary Limited as at the date of acquisition was:

	R'000
Assets	
Property, plant and equipment	58 445
Intangible assets	39 287
	97 732
Liabilities	
Deferred tax liability	(14 009)
Income tax payable	(6 985)
	(20 994)
Total identifiable net assets at fair value	76 738
Non-controlling interest measured at fair value	(21 025)
Discount on acquisition	(20 716)
Purchase consideration transferred	**34 997**
Purchase consideration transferred	
Net cash acquired with subsidiary	–
Net assets transferred as consideration	34 997
Total consideration	**34 997**

No goodwill was recognised on the acquisition; however, expected synergies include supply chain efficiencies, administration and shared service efficiencies, optimisation of sourcing arrangements and distribution channels.

8. Fair value of financial instruments

For financial instruments traded in an active market (Level 1), fair value is determined using stock exchange quoted prices. For other financial instruments (Level 2), appropriate valuation techniques, including recent market transaction and other valuation models, have been applied and significant inputs include market yield curves and exchange rates. There is no difference between the fair value and carrying value of financial assets and liabilities not presented below due to either the short-term nature of these items, or the fact that they are priced at variable interest rates.

Financial instruments carried at fair value in the statement of financial position:	**30 June 2014 (R'000)**	**Level 1 (R'000)**	**Level 2 (R'000)**
Financial liabilities at fair value through profit or loss			
Clover Industries shares forward purchases	2 323		2 323
Liabilities measured at fair value	**2 323**		**2 323**

Fair value hierarchy

Financial instruments carried at fair value in the statement of financial position:	30 June 2013 (R'000)	Level 1 (R'000)	Level 2 (R'000)
Financial assets at fair value through profit or loss			
Foreign exchange contracts	132		132
Assets measured at fair value	132		132
Financial liabilities at fair value through profit or loss			
Clover Industries shares forward purchases	250		250
Liabilities measured at fair value			

There were no transfers between Level 1 and Level 2 fair value measurements during the year ended 30 June 2014 and no transfers into or out of Level 3.

The fair value of the shares forward purchases was determined by Investec Bank Limited. The fair value was determined by making use of the Black Scholes model.

9. Events after the reporting period

With effect 1 July 2014 Clover SA bought the remaining 48% issued ordinary shares of Lactolab from Taurus Stock Improvement Co-operative Ltd for an amount of R5,5 million.

Other than the above, no significant events occurred subsequent to the year-end.

10. Contingencies

Clover SA Proprietary Limited is currently party to a contractual dispute, which is subject to arbitration. The outcome of arbitration is expected during October 2014. The estimated potential exposure to the company amounts to R24 million, if unsuccessful in arbitration.

11. Going concern

The Directors are satisfied that the Group is a going concern and has therefore continued to adopt the going concern basis in preparing the summarised consolidated financial statements.

12. Preparation of summarised consolidated financial statements

These summarised consolidated financial statements are extracted from audited information, but are not itself audited. The directors take full responsibility for the preparation of the summarised consolidated financial statements and ensured that the financial information has been accurately extracted from the underlying audited consolidated annual financial statements, which is available on the Clover website: www.clover.co.za.

The audited financial statements summarised in this section were prepared under the supervision of Louis Jacques Botha, CA(SA), in his capacity as Chief Financial Officer of the Group.

13. Independent audit by auditors

The annual financial statements from which the summarised consolidated financial statements were derived, have been audited by the Group's independent auditors, Ernst & Young Inc. A copy of their unmodified report is available for inspection at the company's registered office.

14. Annual General Meeting

The Annual General Meeting of the company will be held at 200 Constantia Drive, Constantia Kloof, Roodepoort, 1709 on Friday, 28 November 2014, at 10:00 to transact the business as stated in the Annual General Meeting notice which will be distributed to shareholders on 26 September 2014.

Record date to determine which shareholders are entitled to receive the notice of Annual General Meeting	Friday, 19 September 2014
Last day to trade in order to be eligible to attend and vote at the Annual General Meeting	Friday, 14 November 2014
Record date to determine which shareholders are entitled to attend and vote at the Annual General Meeting	Friday, 21 November 2014
Forms of proxy for the Annual General Meeting to be lodged by 10:00 on*	Thursday, 27 November 2014

* Any proxies not lodged by this time must be handed to the Chairperson of the Annual General Meeting immediately prior to the Annual General Meeting.

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