Clover Industries Limited

UNAUDITED INTERIM CONDENSED CONSOLIDATED RESULTS

for the six months ended 31 December 2011
and cash dividend declaration

Clover
Way Better™

Revenue increased by **7,2%** to **R3,6 billion**

Operating profit increased by **6,8%** to **R187,7 million**

Headline earnings increased by **16,6%** to **R109,6 million**

Headline earnings per share decreased by **16,4%** to **61,2 cents**; as a result of share issue

Interim ordinary dividend per share of **15 cents** declared

GROUP PRODUCTS

DIRECTORATE

Directors: Non-executive

JAH Bredin (Chairman)
WI Buchner (Vice-chairman)
TA Wixley* (Lead Independent)
SF Booysen (Dr)*
JNS du Plessis*
HPF du Preez
MG Elliott
JC Hendriks (Dr)
NP Mageza*
NA Smith
*Independent

Directors: Executive

JH Vorster (Chief Executive)
HB Roode (Deputy Chief Executive)
LJ Botha (Chief Financial Officer)
CP Lerm (Dr)

ADMINISTRATION

Company registration number: 2003/030429/06
Ordinary share code: CLR **ISIN:** ZAE000152377
Preference share code: CLRP **ISIN:** ZAE000152385

Registered office:
200 Constantia Drive, Constantia Kloof, 1709

Postal address:
PO Box 6161, Weltevredenpark, 1715
Telephone: (011) 471 1400

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

Company secretary: HB Roode

Auditors: Ernst & Young Inc., Johannesburg

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

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended	31 December 2011 Unaudited R'000	31 December 2010 Unaudited R'000	30 June 2011 Audited R'000
Sales of products	**3 028 556**	2 818 938	5 510 436
Rendering of services	**386 337**	325 575	642 133
Sale of raw milk	**173 025**	203 544	386 070
Rental income	**2 216**	1 220	3 682
REVENUE	**3 590 134**	3 349 277	6 542 321
Cost of sales	**(2 600 198)**	(2 452 367)	(4 801 323)
Gross profit	**989 936**	896 910	1 740 998
Other operating income	**5 758**	7 476	13 974
Selling and distribution costs	**(720 420)**	(632 431)	(1 243 160)
Administrative expenses	**(80 383)**	(82 940)	(173 287)
Restructuring expenses	**(2 481)**	(11 218)	(16 907)
Other operating expenses	**(4 755)**	(1 808)	(2 610)
Operating profit	**187 655**	175 989	319 008
Finance income	**17 386**	6 770	24 625
Finance cost	**(30 263)**	(32 775)	(62 065)
Profit before tax from continuing operations	**174 778**	149 984	281 568
Taxes	**(64 562)**	(52 078)	(97 534)
PROFIT FOR THE PERIOD	**110 216**	97 906	184 034
Other comprehensive income			
Exchange differences on translation of foreign operations	**399**	(810)	(856)
Total comprehensive income for the period, net of tax	**110 615**	97 096	183 178
Profit attributable to:			
Equity holders of the parent	**108 186**	96 743	179 588
Non-controlling interests	**2 030**	1 163	4 446
	110 216	97 906	184 034
Total comprehensive income attributable to:			
Equity holders of the parents	**108 218**	96 080	178 992
Non-controlling interests	**2 397**	1 016	4 186
	110 615	97 096	183 178

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME continued

For the period ended	31 December 2011 Unaudited R'000	31 December 2010 Unaudited R'000	30 June 2011 Audited R'000
Headline earnings calculation			
Profit for the period attributable to shareholders of the parent company	**108 186**	96 743	179 588
Gross remeasurements excluded from headline earnings	**2 017**	(3 826)	(4 173)
Loss/(Profit) on sale and scrapping of property, plant and equipment	**2 017**	(3 826)	(7 277)
Minority portion of profit on sale and scrapping of property, plant and equipment	**–**	–	1 324
Impairment of plant and equipment	**–**	–	1 780
Taxation effects of remeasurements	**(565)**	1 071	(248)
Headline earnings attributable to shareholders of the parent company	**109 638**	93 988	175 167
Issued ordinary shares	**179 111 867**	171 969 010	179 111 867
Number of ordinary shares used in the calculation of:			
Earnings per share – weighted average	**179 111 867**	128 404 439	153 882 447
Diluted earnings per share – weighted average	**190 069 110**	139 703 240	164 890 519
Earnings per share attributable to ordinary equity holders of the parent			
Earnings per share (cents)	**60,4**	75,3	116,7
Diluted earnings per share (cents)	**56,9**	69,2	108,9
Headline earnings per share (cents)	**61,2**	73,2	113,8
Diluted headline earnings per share (cents)	**57,7**	67,3	106,2

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at	31 December 2011 Unaudited R'000	31 December 2010 Unaudited R'000	30 June 2011 Audited R'000
ASSETS			
Non-current assets			
Property, plant and equipment	**1 082 166**	967 660	1 013 289
Investment properties	**937**	985	961
Intangible assets	**354 660**	294 744	347 102
Deferred tax assets	**4 091**	2 516	3 262
	1 441 854	1 265 905	1 364 614
Current assets			
Inventories	**530 888**	561 610	460 247
Trade and other receivables	**1 116 832**	1 032 568	866 475
Pre-payments	**10 683**	9 884	29 000
Income tax receivable	**16 073**	1 492	–
Cash and short-term deposits	**801 698**	792 411	824 212
	2 476 174	2 397 965	2 179 934
Assets classified as held-for-sale	**–**	937	940
	2 476 174	2 398 902	2 180 874
Total assets	**3 918 028**	3 664 807	3 545 488

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION continued

As at	31 December 2011 Unaudited R'000	31 December 2010 Unaudited R'000	30 June 2011 Audited R'000
EQUITY AND LIABILITIES			
Equity			
Issued capital	**8 955**	8 598	8 955
Share premium	**675 113**	602 269	675 113
Other reserves	**255 141**	245 786	252 784
Retained earnings	**887 872**	740 566	805 499
Equity attributable to equity holders of the parent	**1 827 081**	1 597 219	1 742 351
Non-controlling interests	**14 449**	27 318	9 444
Total equity	**1 841 530**	1 624 537	1 751 795
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	**428 857**	594 790	432 833
Provisions	**62 277**	53 210	62 526
Deferred tax liability	**80 102**	11 895	32 017
Trade and other payables	**10 794**	8 145	13 357
	582 030	668 040	540 733
Current liabilities			
Trade and other payables	**1 467 904**	1 320 130	1 068 836
Interest-bearing loans and borrowings	**11 804**	35 622	173 829
Income tax payable	**3 182**	–	243
Provisions	**11 578**	16 478	10 052
	1 494 468	1 372 230	1 252 960
Total liabilities	**2 076 498**	2 040 270	1 793 693
Total equity and liabilities	**3 918 028**	3 664 807	3 545 488

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended	31 December 2011 Unaudited R'000	31 December 2010 Unaudited R'000	30 June 2011 Audited R'000
Balance at 1 July	**1 751 795**	1 076 467	1 076 467
Profit for the period	**110 216**	97 906	184 034
Other comprehensive income	**399**	(944)	(856)
Total comprehensive income	**110 615**	96 962	183 178
Ordinary shares issued	**–**	502 336	577 335
Share issue cost capitalised against share premium	**–**	(13 009)	(14 807)
Share-based payment reserve accrued	**6 120**	4 395	11 192
Share appreciation rights exercised	**(3 950)**	–	–
Dividends of subsidiaries – non-controlling interest	**–**	(1 806)	(1 805)
Non-controlling interest acquired with the buy-out of minorities	**2 609**	–	(21 045)
Dividends	**(27 216)**	(40 808)	(58 720)
Dividends forfeited	**1 557**	–	–
Balance at end of the period	**1 841 530**	1 624 537	1 751 795
Consists of:			
Share capital and premium	**684 068**	610 867	684 068
Other capital reserves	**255 141**	245 786	252 784
Retained earnings	**887 872**	740 566	805 499
Shareholder equity	**1 827 081**	1 597 219	1 742 351
Non-controlling interest	**14 449**	27 318	9 444
Total equity	**1 841 530**	1 624 537	1 751 795

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended	31 December 2011 Unaudited R'000	31 December 2010 Unaudited R'000	30 June 2011 Audited R'000
Operating activities			
Profit before tax	**174 778**	149 984	281 568
Adjustment for non-cash items	**65 669**	82 764	153 197
Working capital adjustments	**91 703**	(119 632)	(122 585)
Income tax paid	**(28 914)**	(33 181)	(55 264)
Net cash flow from operating activities	**303 236**	79 935	256 916
Investing activities			
Proceeds from sale of property, plant and equipment	**3 196**	5 887	10 675
Interest received	**17 386**	6 770	24 625
Goodwill purchased through the buyout of Clover Beverages' non-controlling interests	**–**	–	(49 387)
Acquisition of non-controlling nterest in Clover Beverages	**–**	–	(21 045)
Capital expenditure: tangible and intangible assets	**(128 523)**	(112 651)	(216 326)
Net other investing activities	**4 120**	(1 556)	(1 854)
Net cash flow used in investing activities	**(103 821)**	(101 550)	(253 312)
Financing activities			
Interest paid	**(30 263)**	(32 775)	(62 065)
Dividends paid	**(27 216)**	(40 808)	(58 720)
Proceeds from issue of ordinary share capital	**–**	502 336	577 335
Transaction cost on issue of shares	**–**	(13 009)	(14 807)
Repayment of borrowings	**(166 001)**	(29 039)	(52 790)
Net other financing activities	**1 551**	(1 953)	2 381
Net cash flows (used in)/from financing activities	**(221 929)**	384 752	391 334
Net (decrease)/increase in cash and cash equivalents	**(22 514)**	363 137	394 938
Cash and cash equivalents at beginning of the period	**824 212**	429 274	429 274
Cash and cash equivalents at end of the period	**801 698**	792 411	824 212

ACCOUNTING POLICIES AND NOTES

Corporate information and basis of preparation

Clover Industries Limited is a company incorporated and domiciled in South Africa.

These unaudited interim condensed consolidated financial statements were prepared in accordance with IAS 34: Interim Financial Reporting, the Listings Requirements of the JSE Limited ("JSE") and the Companies Act, 2008 (Act 71 of 2008), as amended. The accounting policies adopted in the preparation of these unaudited interim condensed consolidated financial statements are in accordance with International Financial Reporting Standards (IFRS) and are consistent with those followed in the preparation of the annual financial statements for the year ended 30 June 2011.

Segment report

Segment information is presented in respect of the Group's operating segments. The operating segments are based on the Group's management and internal reporting structure.

The Group comprises the following operating segments:

- Dairy fluids segment 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 segment focuses on the development and marketing of non-alcoholic, value-added branded beverages products; and
- Other consists of Clover's holding company and Lactolab Proprietary Limited that renders laboratory services.

As disclosed in the annual report the reportable segments were changed from reporting operating entities to product groups. The comparative figures to December 2010 were restated accordingly.

SEGMENTAL REPORT

For the period ended	31 December 2011 Unaudited R'000	31 December 2010 Unaudited R'000	30 June 2011 Audited R'000
External revenue			
Dairy fluids	**1 587 323**	1 467 971	2 959 585
Dairy concentrated products	**499 380**	505 610	922 306
Ingredients	**188 873**	182 468	332 258
Non-alcoholic beverages	**748 074**	658 297	1 287 553
Other	**4 906**	4 592	8 734
	3 028 556	2 818 938	5 510 436
Margin on material			
Dairy fluids	**626 996**	604 725	1 227 429
Dairy concentrated products	**151 672**	131 439	224 199
Ingredients	**42 717**	45 747	71 397
Non-alcoholic beverages	**382 499**	339 976	656 297
Other	**3 641**	3 115	6 160
	1 207 525	1 125 002	2 185 482

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

OVERVIEW

The first quarter of the financial year was characterised by increased input costs and subdued consumer spending, in particular following the widespread industrial actions of mid-2011 in South Africa. The second quarter yielded an improved trading environment despite the continued rise in input costs. Although Clover was unable to recover higher input costs due to the high milk flow season, it managed to absorb a substantial part of these through higher sales volumes, especially in branded and non-bulk products. Clover's brands performed well overall which again underlines the importance of brand strength during testing times.

During mid-2011 certain supply contracts with milk producers expired and were not renewed to support the growth aspirations of Clover's Delivery Agreement producers. Unfortunately during this time on-farm milk production input costs had risen dramatically and consequently the additional "B" Delivery Agreements issued to producers to compensate for the reduction in supply contract milk could not be fully supplied as planned. Clover was unable to increase farmgate milk prices at that time due to the approaching seasonal peak production period but paid a full supply premium to producers during August and September to help mitigate against the increased feed costs. As a result, sales volumes and revenue were negatively affected as milk intake was below market demand during the first quarter. From October to December 2011, sufficient milk was collected to supply the market but the normal seasonal stock build-up in anticipation of the 2012 autumn and winter was below required levels.

The lower stockpile levels achieved will require Clover to import milk powder, butter and UHT milk during the second half of the financial year to enable full supply during the relocation process of production equipment from Clayville to Port Elizabeth as part of Project Cielo Blu during winter 2012.

FINANCIAL PERFORMANCE

Headline earnings improved from R94,0 million to R109,6 million largely as a result of the higher operating profit and lower net finance charges. The dilution effect of shares issued at the time of the JSE listing resulted in headline earnings per share reducing from 73,2 cents to 61,2 cents. The funds raised by the listing are mainly earmarked for capital projects linked to Project Cielo Blu and which will be completed during the 2013/2014 financial year. In the interim, these funds are mainly invested in short -term money market funds with significantly lower returns than the planned capital projects.

Operating profit increased from R176,0 million to R187,7 million. Gross margin improved from 26,8% to 27,6% mainly as a result of higher income from services rendered to principals. Improved product mix and higher volumes, rather than selling price increases, accounted for the revenue increase. Increased factory throughput and additional UHT manufacturing capacity in Port Elizabeth, resulting in lower raw milk transportation costs, largely compensated for the significant increases in juice concentrates and other ingredient costs. Administration costs declined by 3% mainly due to a reduction in incentive bonuses linked to the achievement of financial targets. Clover's aggressive "Way Better" marketing and advertising campaign contributed to the 13,9% increase in selling and distribution costs. Although the cost of this campaign was incurred in the period under review, the benefits thereof will only manifest over the medium term and are not fully reflected in the reporting period. Strong cost inflation continued from the closing months of the previous financial year into the current review period and maintained pressure on the operating margin. During this period, selling price increases were difficult to implement due to the normal seasonal over supply of milk. Consequently the operating margin contracted slightly to 5,2% from 5,3% in the corresponding previous period but increased from the 4,9% achieved in the previous financial year.

The Project Cielo Blu capacity expansion at the Clayville distribution centre was a significant contributor to the 18,7% growth in principal business revenue (13,9% excluding the additional merchandising income from Danone Southern Africa Proprietary Limited from May 2011).

Growth in overall sales volumes (locally produced concentrated and ingredient products are expressed in milk equivalent volume) came to 3,6%. The non-bulk and branded product volumes grew by 7,6% as a result of a very focused commercial and marketing strategy. Bulk product volumes declined by 16,8% in line with the overall Group strategy of decreasing exposure to these products. Dairy fluid volumes increased by 6,7% and non-alcoholic beverage volumes by 7,4% while concentrated volumes declined by 2,2% and ingredient volumes by 12,4%. Pre-packed branded cheeses included under concentrated products saw a 16,7% volume growth while the bulk cheese component reduced by 21,9%.

Net finance charges reduced by 50% or R13,1 million after the injection of new share capital with the listing on the JSE in December 2010.

The tax expense is inflated by R3,1 million or 1,8% of pre-tax profits as a result of the reversal of a deferred tax asset raised in the 2010/2011 financial year, following a Supreme Court of Appeal ruling during the period under review. This ruling was not related to Clover.

FINANCIAL POSITION AND CASH FLOWS

The increase in property, plant and equipment post-June 2011 is mostly related to the capital expenditure on Project Cielo Blu and other projects.

Inventory levels were higher than at June 2011 in line with the normal seasonal trend but were lower than at December 2010 due to the lower than normal milk intake as a result of on-farm cost pressures. Trade and other receivables increased by 8,2%. This increase is slightly more than the revenue increase of 7,2%. The period-end was over a long weekend which delayed some debtor payments. For the same reason, trade and other payables also increased by 11%. As a result, cash flow was healthy with working capital releasing R91,7 million to cash. The seasonal nature of the business typically causes working capital to absorb cash during the first six months of Clover's financial year.

During December 2011 a long-term loan of R155 million matured and was repaid.

Net cash flow from operating activities increased by R223,3 million to R303,2 million and was, except for the reduction in cash and cash equivalents of R22,5 million, sufficient to fund the reduction in long-term debt of R166 million, capital expenditure of R128,5 million, taxes of R28,9 million, net finance charges of R12,9 million and dividends of R27,2 million.

PROSPECTS

Farmgate milk prices were increased after the half-year-end in response to high on-farm input costs. The milk price paid to producers went up by an average 60 cents per litre or approximately 20% from January 2012 to March 2012. This is deemed sufficient to alleviate the immediate input cost pressures on Clover's producers and will be recovered in the market. This cost recovery is likely to have a temporary impact on the healthy volume growth Clover has experienced over the past number of years. However, Clover believes that this should not impact its volume growth prospects over the medium and long term.

Costs pressures are being strongly resisted and, where they cannot be absorbed, these will be passed on to the market. Project Cielo Blu is progressing well, although the positive impact of additional capacity for UHT milk and distribution are not reflected fully in this review period. As highlighted in the previous reporting period, the Queensburgh distribution facility design was reconsidered and processes simplified to enhance long-term benefits. The revised commissioning date is now expected to be in September 2013. The balance of savings from Project Cielo Blu's capacity and efficiency improvements are on track and expected to come through as originally anticipated.

To secure its milk source, in addition to the farmgate milk price increases, Clover is in the process of supplementing its milk supply by entering into supply contracts with certain new milk producers. It may, however, still experience a milk shortage during the coming autumn and winter that will necessitate the import of certain products.

Clover's focus for the remainder of the year will be on continuous cost savings, the implementation of Project Cielo Blu and other margin-enhancing projects approved by the Board, the improvement of the product mix, and the managing of selling prices in a highly competitive environment to further enhance the quality and brand power of Clover's products. Although the economy remains sluggish, it is expected that the positive trend experienced during the second quarter will continue and the Group is confident that it will recover cost increases, including the increase in farmgate milk prices, during the second half of the financial year. Considering the above, Clover is well-positioned to deliver a solid performance during the second half of the financial year.

EVENTS AFTER THE REPORTING PERIOD

No significant events occurred subsequent to the period-end, other than the sharp increase in farmgate milk prices.

GOING CONCERN

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

DIVIDENDS

The Board declared a 15 cents per share interim ordinary cash dividend for the six months ended 31 December 2011, payable in South African currency on 10 April 2012.

The salient dates will be as follows:

Last day to trade "cum" the ordinary share dividend	Thursday, 29 March 2012
Shares commence trading "ex" the ordinary share dividend	Friday, 30 March 2012
Record date on	Thursday, 5 April 2012
Payment date on	Tuesday, 10 April 2012

Share certificates may not be dematerialised or rematerialised between Friday, 30 March 2012 and Thursday, 5 April 2012, both days inclusive.

On behalf of the Board

JAH Bredin
Chairman

JH Vorster
Chief Executive

13 March 2012

PREPARATION OF UNAUDITED INTERIM CONDENSED CONSOLIDATED RESULTS

The interim condensed financial statements set out above were prepared under the supervision of Louis Jacques Botha, CA(SA), in his capacity as Chief Financial Officer of the Group.

INDEPENDENT AUDIT BY AUDITORS

The interim condensed financial statements have not been audited or reviewed by the Group's independent auditors.

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