

Clover Industries Limited

**Presentation to shareholders and analysts
Interim results for the six month ended
31 December 2010**



Disclaimer

Any reference to future financial performance included in this presentation has not been reviewed and reported on by Clover's auditors and does not constitute an earnings forecast.

Agenda

-  **Highlights**
-  **Listing highlights revisited**
-  **Operating environment**
-  **Group financial results**
-  **Prospects and outlook**
-  **Questions and answers**

Highlights



Highlights

- Partial recovery of the economy
- Festive season showed strong activity
- Lower input costs helped sales volumes
- Project Reset had desired effect and proved to be very successful
- Product mix continued to improve
- First phase of Cielo Blu in Clayville completed
- Clover's milk supply and demand is in balance (industry slightly in over supply)
- Good brand performance in all important markets
- Operating profit benefited from lower commodity costs



Highlights

- ❁ Revenue growth of 10,8%
- ❁ Operating profit up 43%
- ❁ Normalised Operating profit up 23,8%
- ❁ Operating margin up to 5,3% from 4,1%
- ❁ Normalised Operating margin up to 5,6% from 5% (FY10 - 5,4%)
- ❁ Headline earnings from continuing operations up 693%
- ❁ Maiden interim dividend of 10 cents per share



Listing highlights revisited



Strong Brand...



Iconic SA Brand

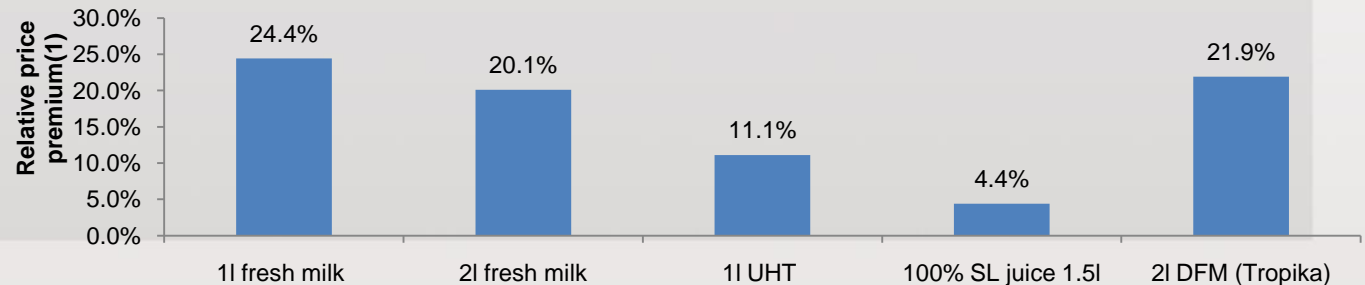
Highly recognisable and iconic South African brand



Associated with high quality products

Clover products carry a tangible brand premium

Tangible brand equity



Note 1: Relative to second highest price

■ Median price premium

Top 10 SA Brand



Leading market positions

Clover has a number 1 or strong number 2 position in each of its key market segments



Key products	Market position	Market share (Shoprite/Checkers, PnP and Spar)
	For the 12 months ending Jan 2011	For the 12 months ending Jan 2011 (12 months to Jan 2010)
Milk		
Fresh milk	No 1	28.7% (25.3%)
UHT milk	No 1	26.1% (20.1%)
Flavoured milk	No 2	29.8% (27.5%)
Everyday cheese		
Feta	No 1	38.2% (29.9%)
Natural pre-pack	No 1	47.9% (64.5%)
Beverages		
Dairy Fruit Mix	No 1	59.7% (59.7%)
Pure juice	No 1	31.9% (31.8%)
Water ⁽¹⁾	No 5	6.2% (8.4%)
Ice tea	No 2	32.7% (31.6%)

Note 1: Number 5 position distorted by inclusion of bulk water products in product segment. Clover only competes in the consumer bottled water market segment

Source: Synovate

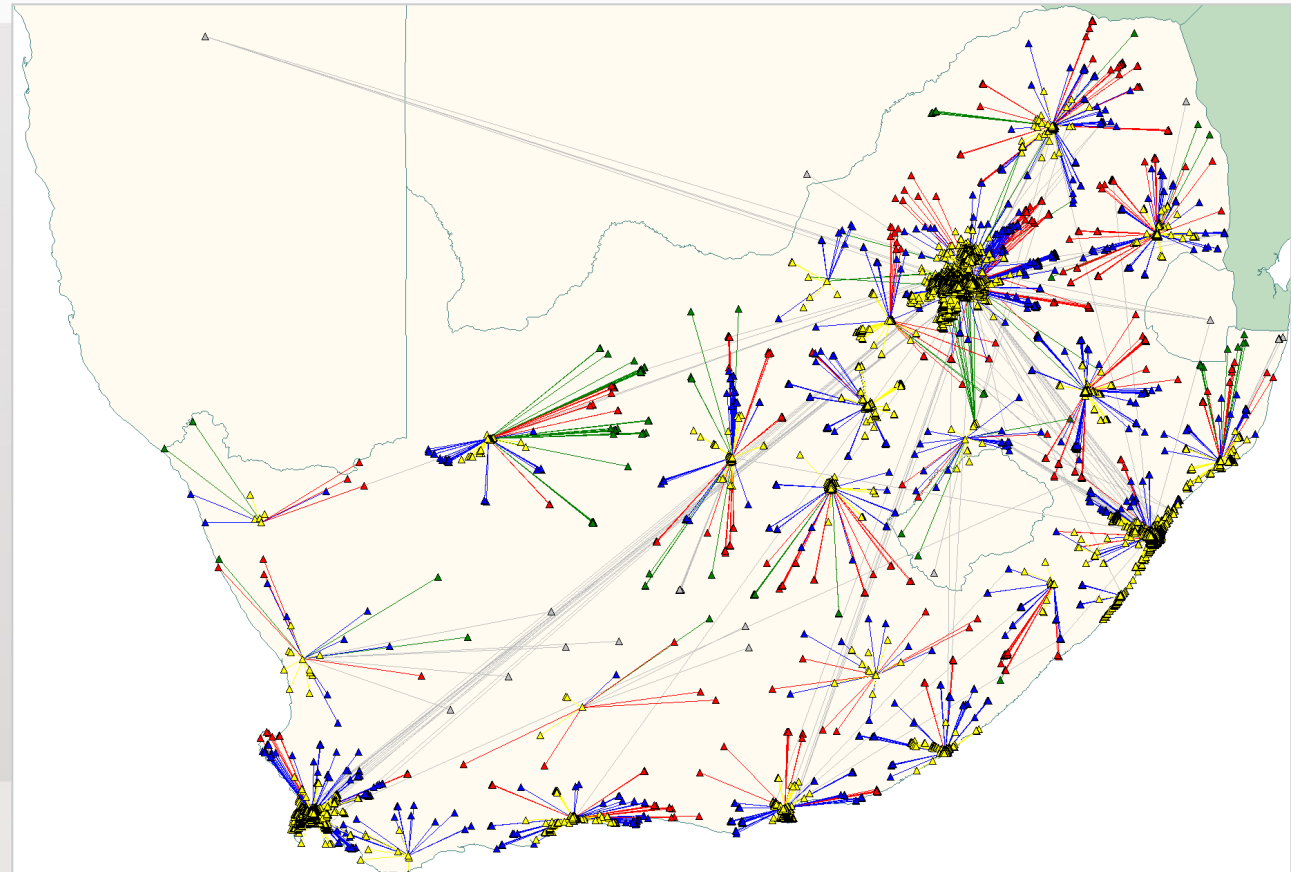
Extensive distribution network



Distribution network is a key enabling platform, a sustainable competitive advantage and is central to the growth prospects of Clover

Deep penetration with c. 14,000 delivery points with high frequency of delivery due to milk

>600 trucks delivering to on average 8 customers per day per truck



Colour	Distance Breakpoint	% of total demand within	Demand distribution	
Yellow	75 km	74.7%	W Cape	9%
Blue	150 km	86.8%	Gauteng	42%
Red	225 km	93.5%	KZN	22%
Green	300 km	95.0%	E Cape	7%
Grey	1500 km	100.0%	Free State	6%






Distribution network principles



Evidences the strength of Clover's distribution network and expertise

Allows Clover to:

- optimise the distribution network
- increase profitability
- obtain critical mass
- penetrate markets which competitors cannot economically penetrate

Principals	Products handled	Services rendered
	All refrigerated products, being Margarine (Rama, Stork and Flora) and Meadowlands	Warehousing and distribution services Manufacturing of OLA ice cream Sales and merchandising services
	Total product basket, being Custard, Yoghurt and Maas	Supply Chain Planning Distribution & warehousing Raw material procurement Credit control and debtors admin Manufacturing and packaging of Maas and Custard IT services Sales and merchandising services
	Total product basket	Sales and merchandising services Distribution services Credit control and debtors admin
	Mageu	Manufacturing, packaging and distribution Credit control and debtors admin Sales and merchandising services

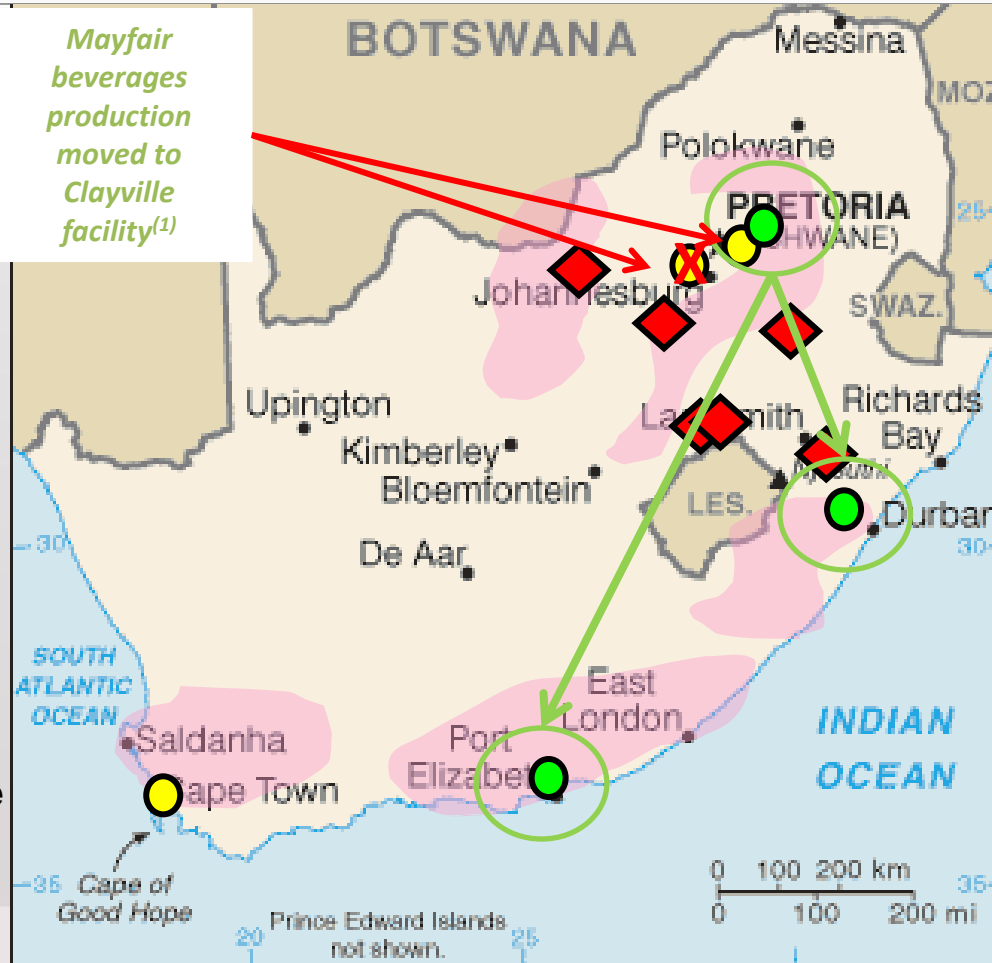
Aggregate handling volumes for principal products of 262,441 tons pa, representing R5.4bn in turnover in FY2010 and contributing R583m in aggregate revenue for Clover



Project Cielo Blu

- Project Cielo Blu creates efficiencies and capacity in the production and distribution network to support current and future growth
- Project Cielo Blu seeks to:
 - Address historical inefficiencies in the supply chain
 - Create capacity to sustain growth of the business
 - Improve profitability

Mayfair beverages production moved to Clayville facility⁽¹⁾



Clayville UHT facilities moved to Pinetown and PE

Note (1): Mayfair facility subsequently closed



Clover's Unique Milk Purchasing System (CUMPS)

"A" Delivery agreements

Clover Producers have a perpetual right and obligation to supply fixed volume of milk to Clover.

These agreements are valued and traded between producers over-the-counter (facilitated by Clover).

Approximately 72% of Clover's total milk demand.

The milk price is variable and determined by Clover based on primary and secondary market conditions (subject to 30 days notice).

Clover is obliged to collect this milk volume

"B" Delivery agreements

Additional volume issued to Clover producers holding "A" agreements annually on their request but subject to Clover's demand for milk.

Issued after taking into account demand, location of demand and producer's ability to supply.

It can be increased or withdrawn at Clover's discretion at anytime during the year.

These "B" agreements are used to balance supply and demand. Same price as "A"

Managed monthly and short supplied portion diverted to producers with ability to supply.

Clover is obligated to collect the milk while in issue.

Supply contracts

Normal commercial agreement with non Clover producers not holding "A" agreements to supply a fixed volume of milk over a fixed contractual term.

Short term mechanism to balance supply and demand where "A" and "B" agreements insufficient to supply the demand.

It allows "A" agreement holders time to increase production of "A & B" in order to supply full demand.

Same price as "A" and "B".

Clover is obliged to collect this milk for the duration of the contract.

Producers have the opportunity to convert from a contract producer to a supply agreement producer by buying "A" agreement

"C" milk

Excess supply over "A", "B" and Supply Contracts

Clover will generally collect "C" milk as a service to producers but is not obliged to do so.

Price determined by Clover for every month based on potential market for the "C" milk, availability of manufacturing facilities, storage costs, selling costs, collection costs, etc. but generally NIL, as Clover does not need the milk.

(Producers have 3% leniency over and above annual contractual volumes)

To supply Clover's annual market demand as budgeted / forecasted



"A"

+

"B"

+

Supply
Contracts

=

Clover's Potential Market

Steps taken to reduce cyclicality

- 1 Exit from balancing / bulk products
- 2 Milk procurement policy and “C” milk price signal
- 3 Brand equity and pricing power
- 4 Diversification of the portfolio into higher margin branded goods

Clover is able to manage its exposure to the milk cycle and mitigate the effects of volatility on its business



Summary - Attractive growth prospects...



Operating environment



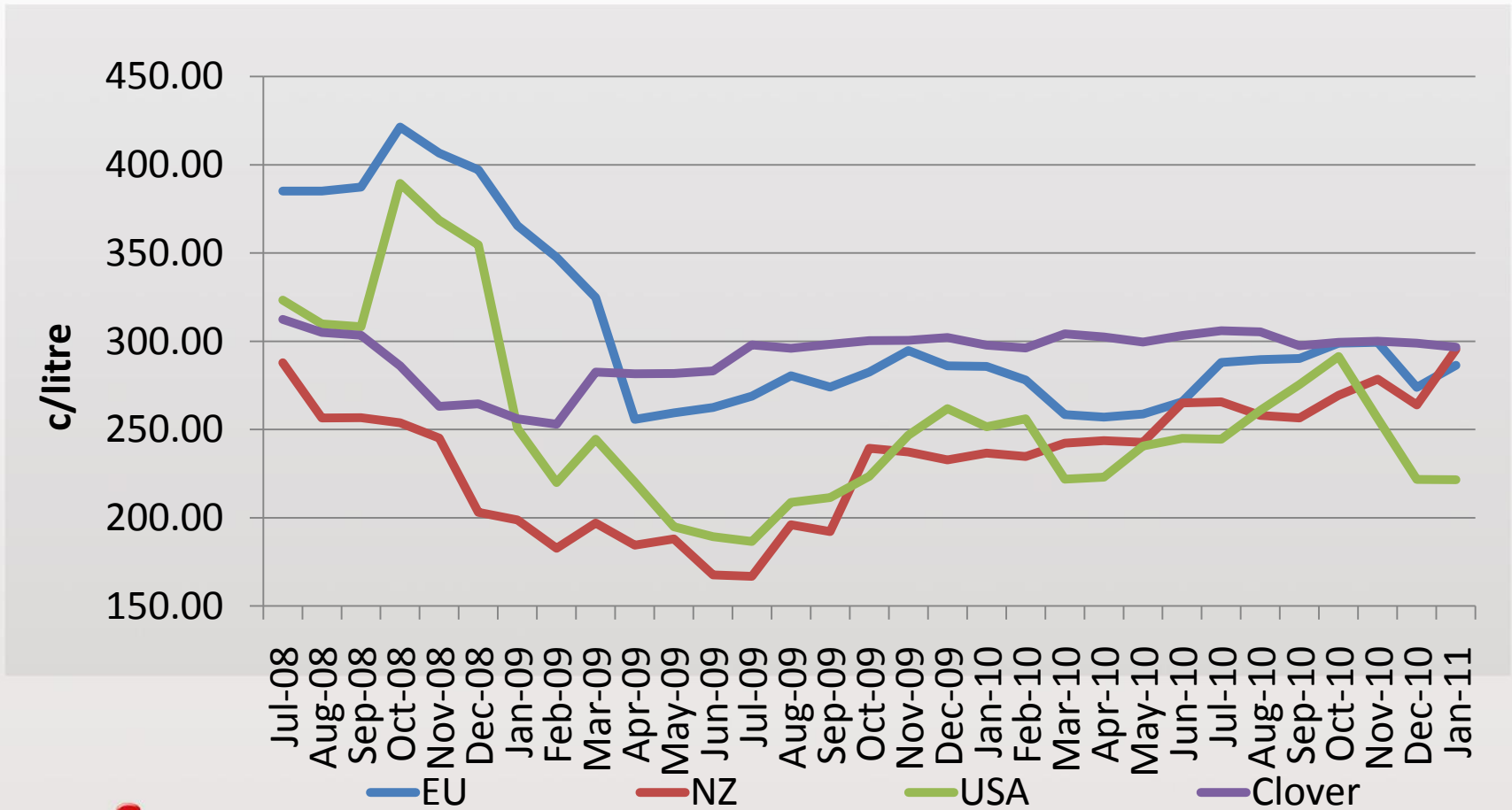
International trends



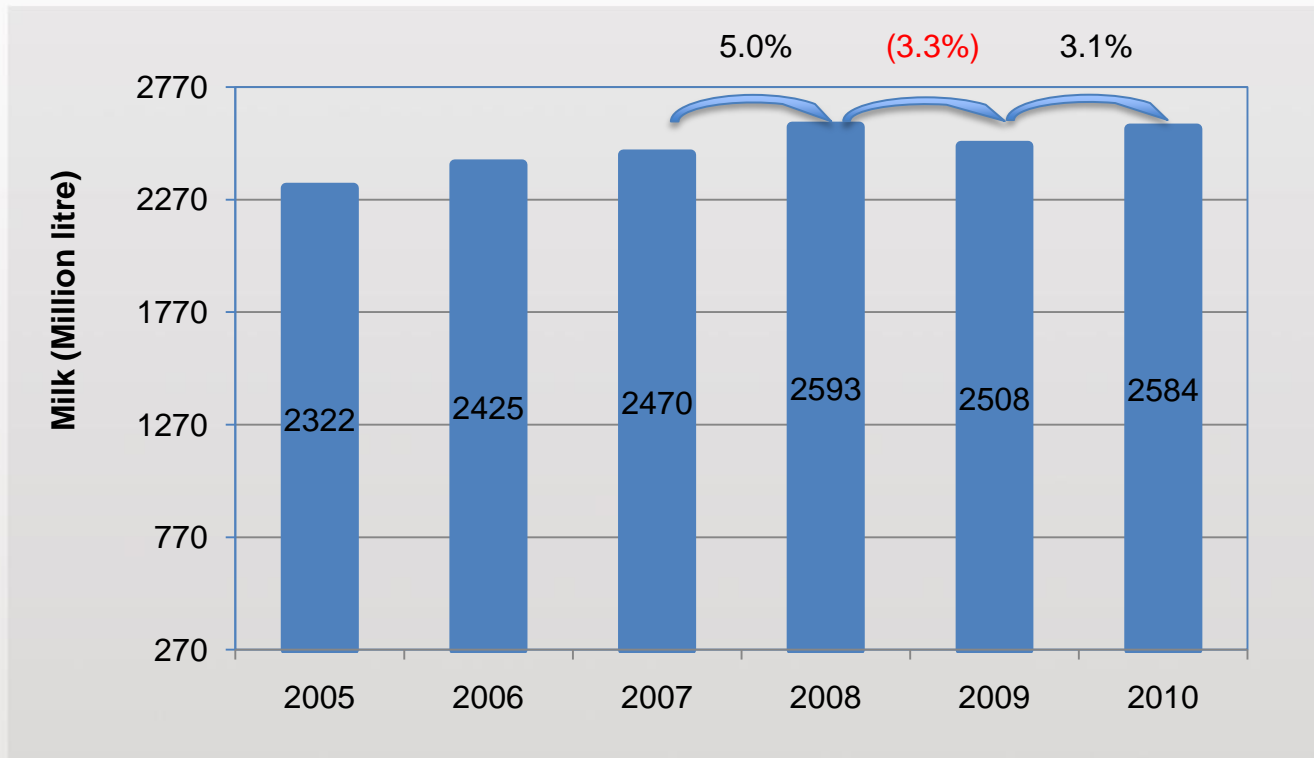
World commodity prices in \$/ton, as for March of each year

Year	SMP	WMP	Butter
2007	3 688	3 628	2 099
2008	3 579	4 644	4 095
2009	1 700	1 850	2 065
2010	2 718	3 147	3 616
2011	4 107	4 725	5 373

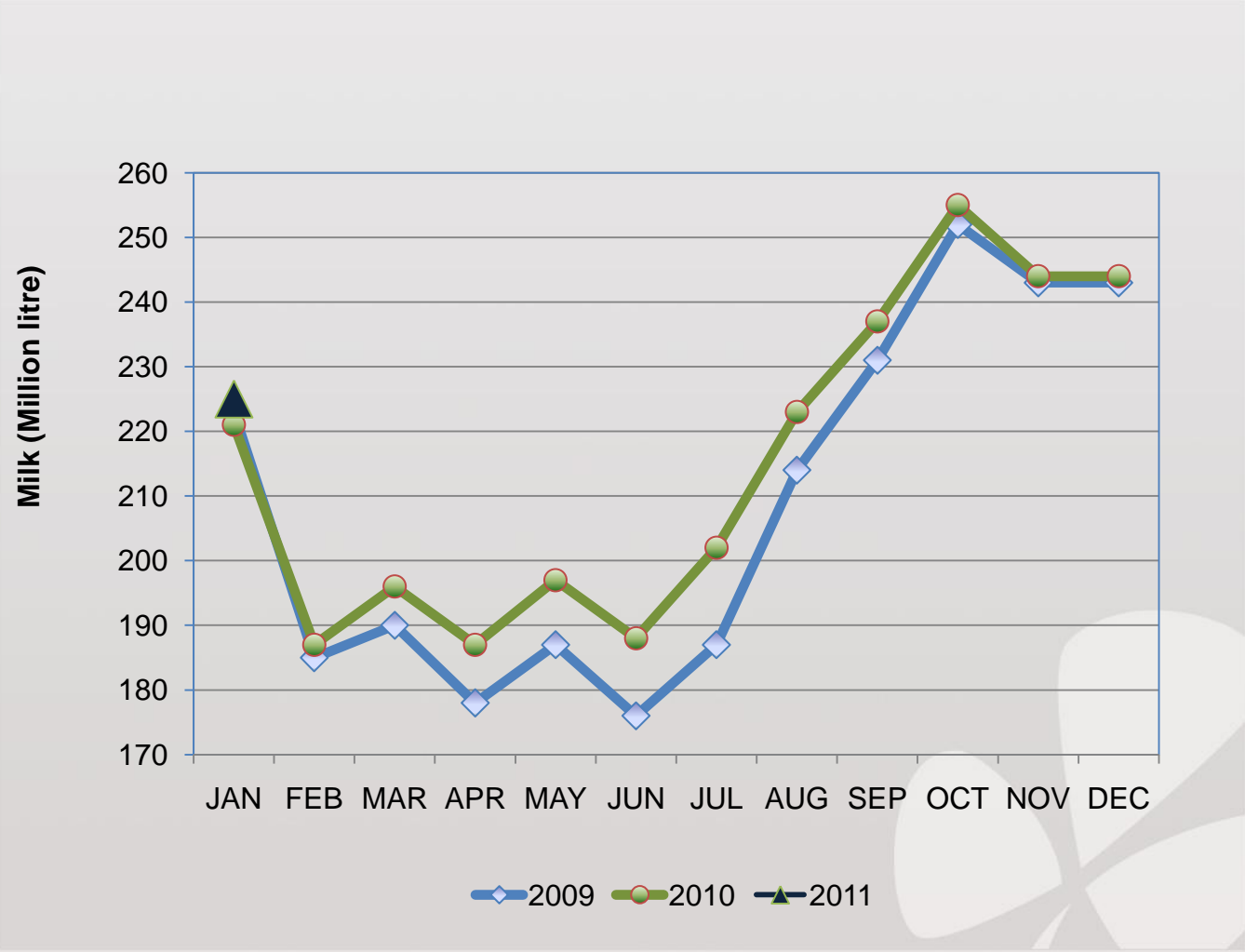
Clover farm gate milk price comparison



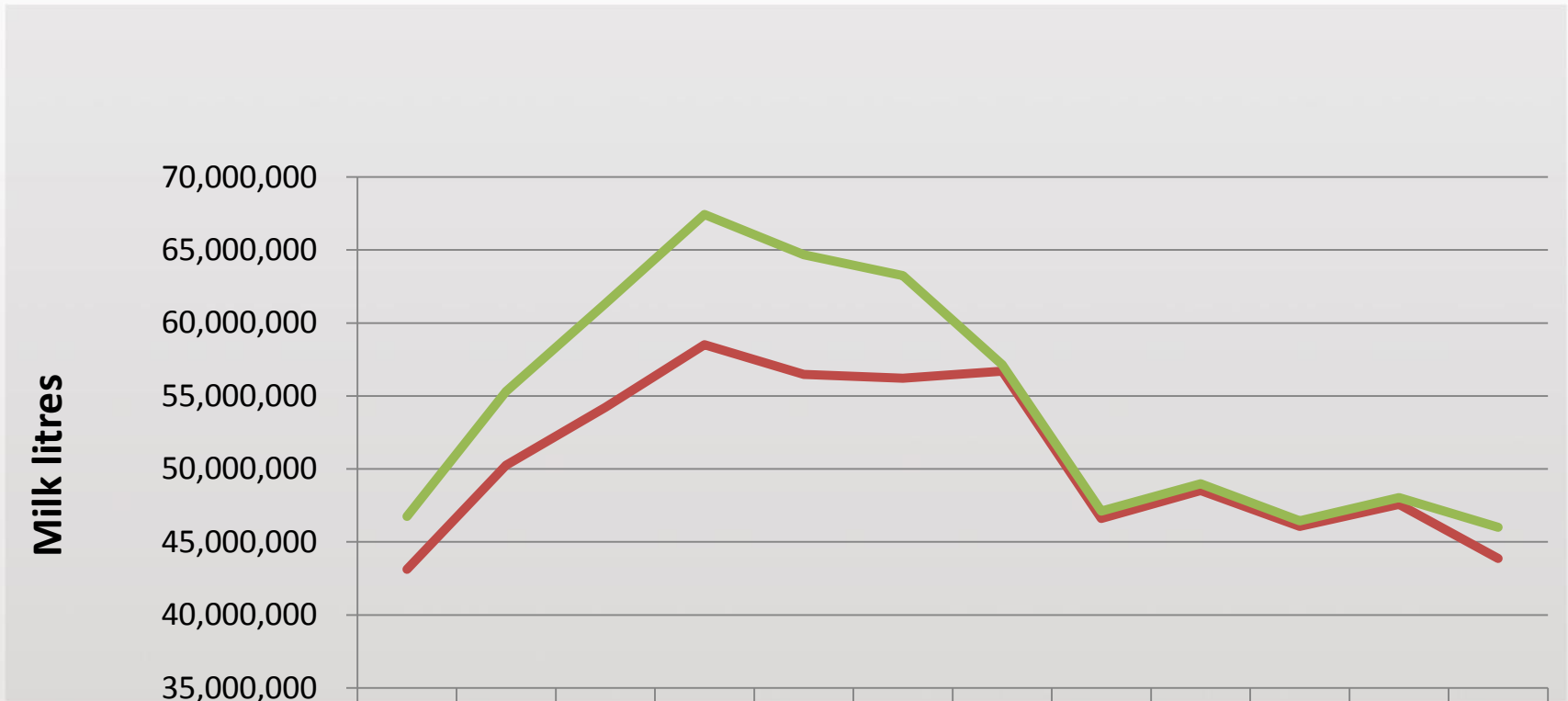
South African annual milk production



South African monthly milk production



Clover milk intake



JUL AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN



2009/10 - Previous year

2010/2011 - Actual & Estimate

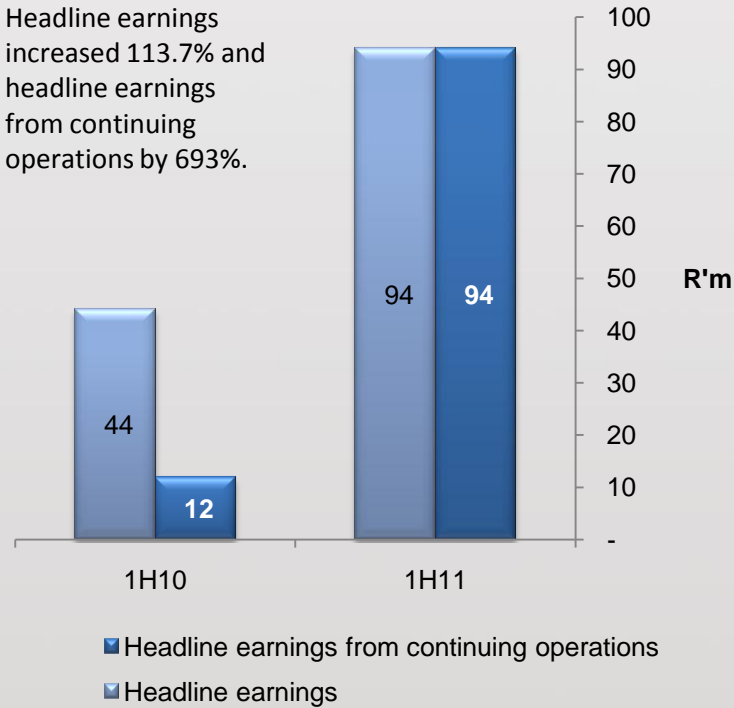
Group financial results



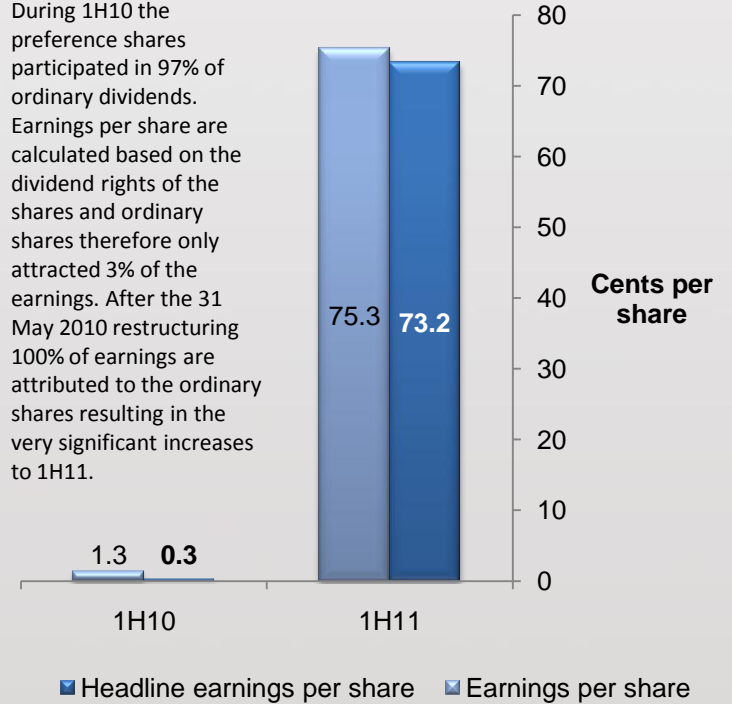
Headline earnings/Earnings per share



Headline earnings increased 113.7% and headline earnings from continuing operations by 693%.



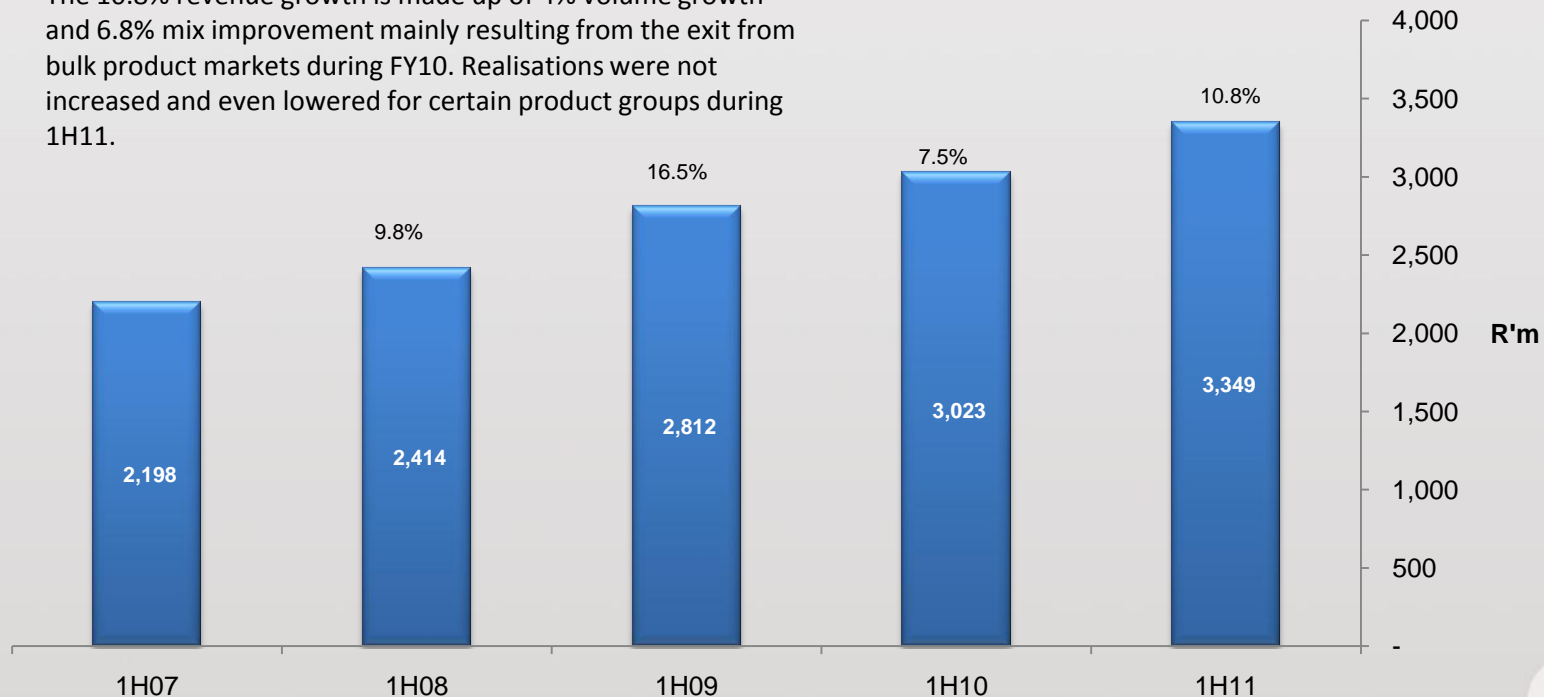
During 1H10 the preference shares participated in 97% of ordinary dividends. Earnings per share are calculated based on the dividend rights of the shares and ordinary shares therefore only attracted 3% of the earnings. After the 31 May 2010 restructuring 100% of earnings are attributed to the ordinary shares resulting in the very significant increases to 1H11.



Revenue

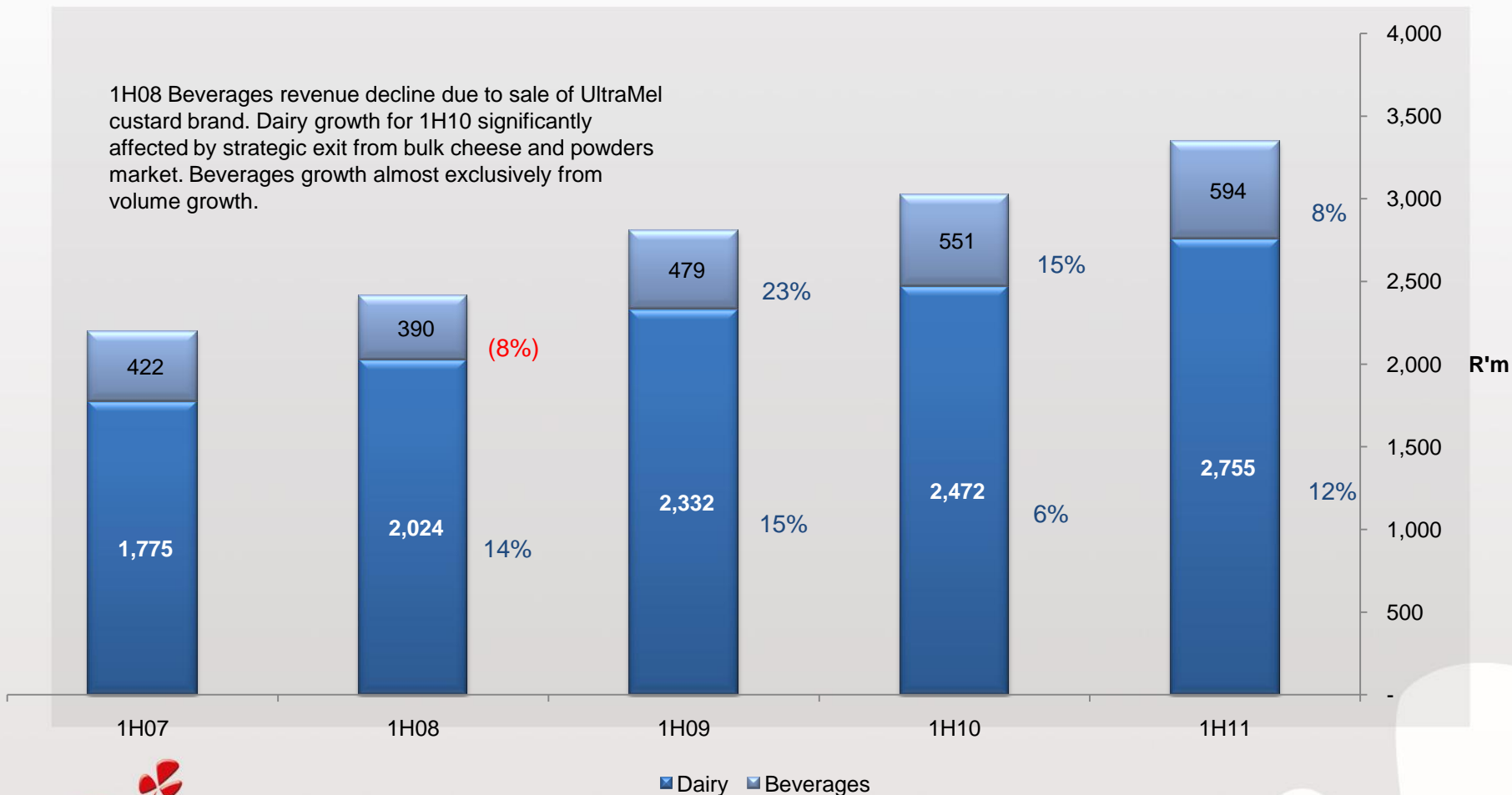


The 10.8% revenue growth is made up of 4% volume growth and 6.8% mix improvement mainly resulting from the exit from bulk product markets during FY10. Realisations were not increased and even lowered for certain product groups during 1H11.

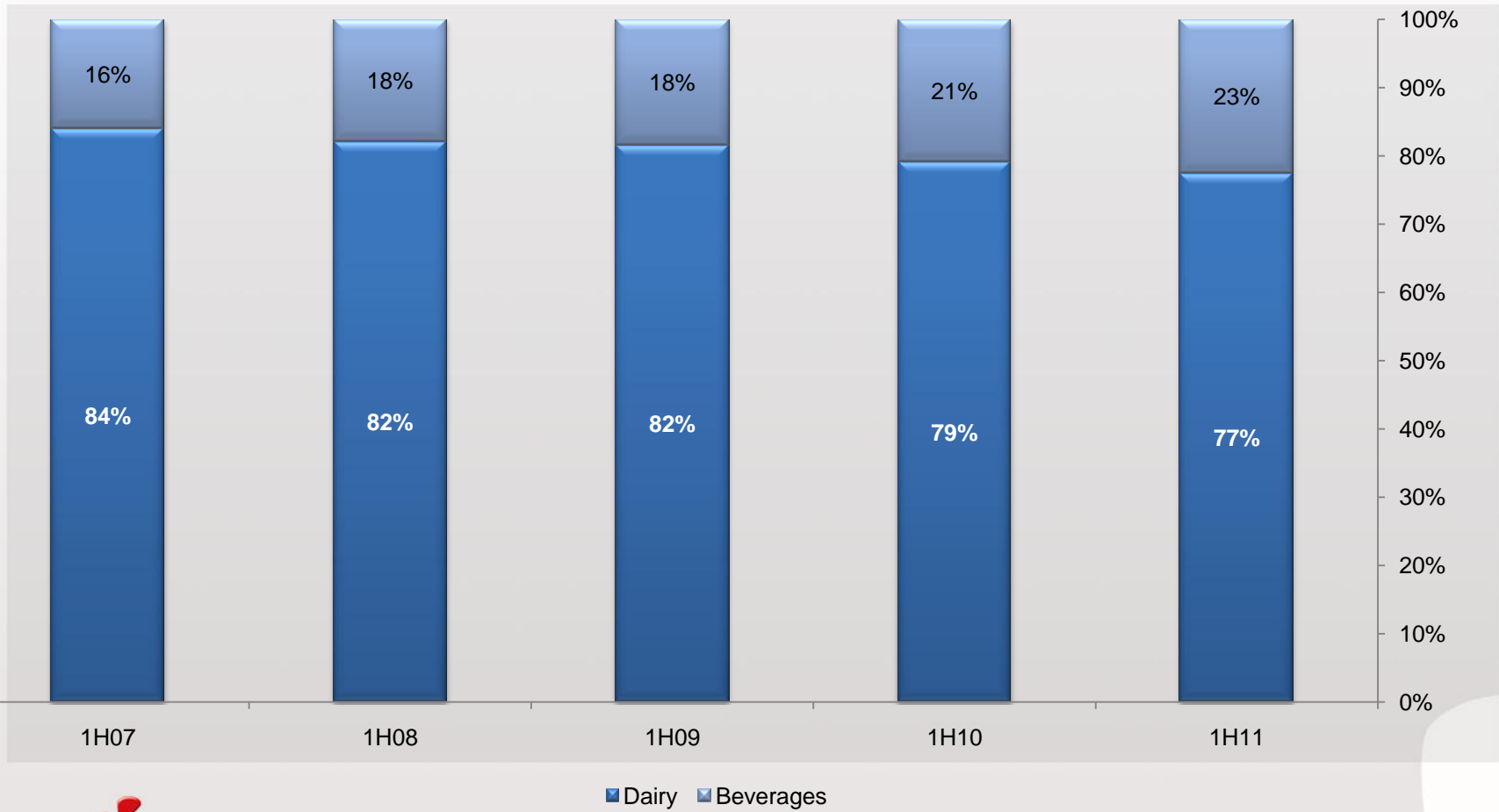


Segment revenue

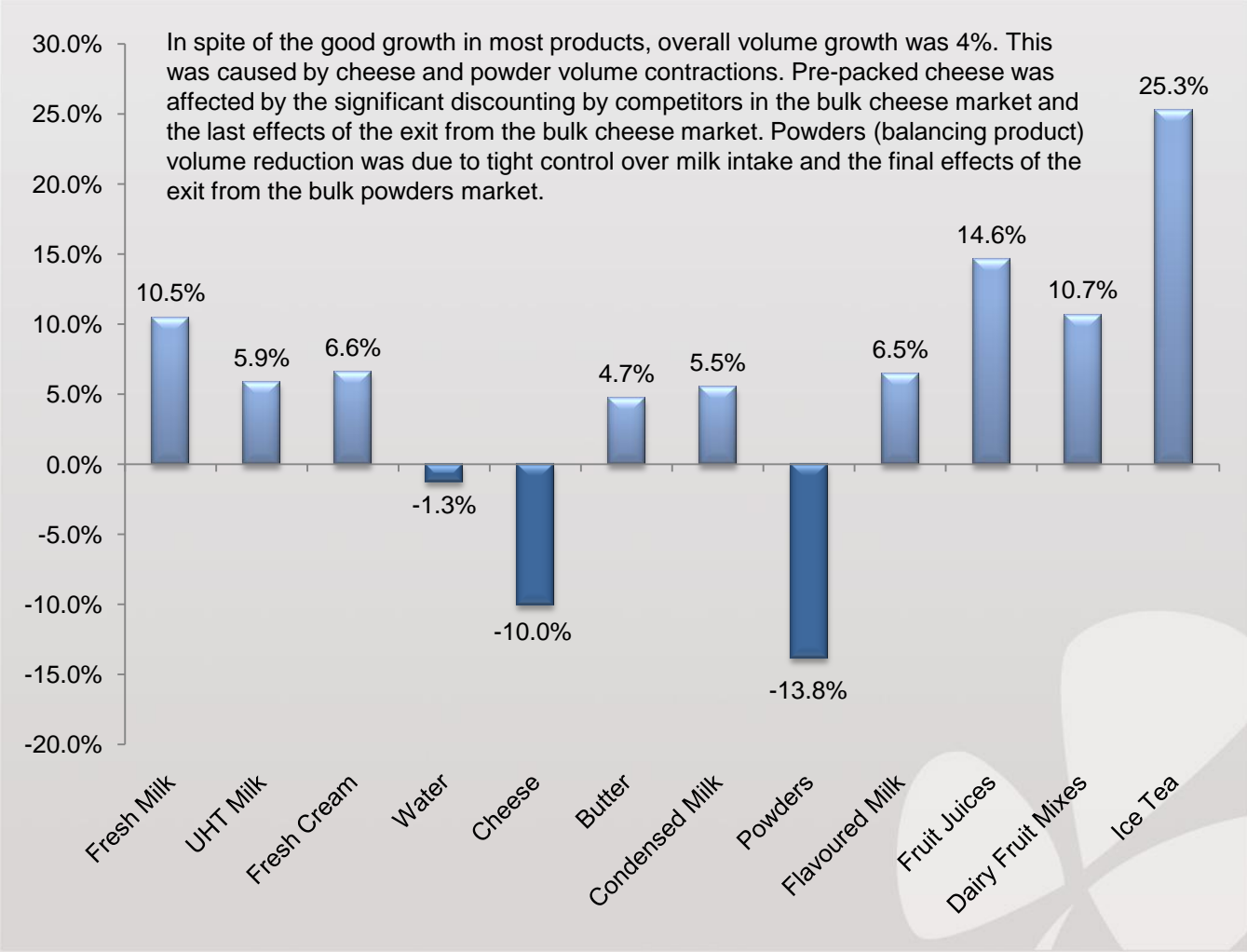
1H08 Beverages revenue decline due to sale of UltraMel custard brand. Dairy growth for 1H10 significantly affected by strategic exit from bulk cheese and powders market. Beverages growth almost exclusively from volume growth.



Segment volumes

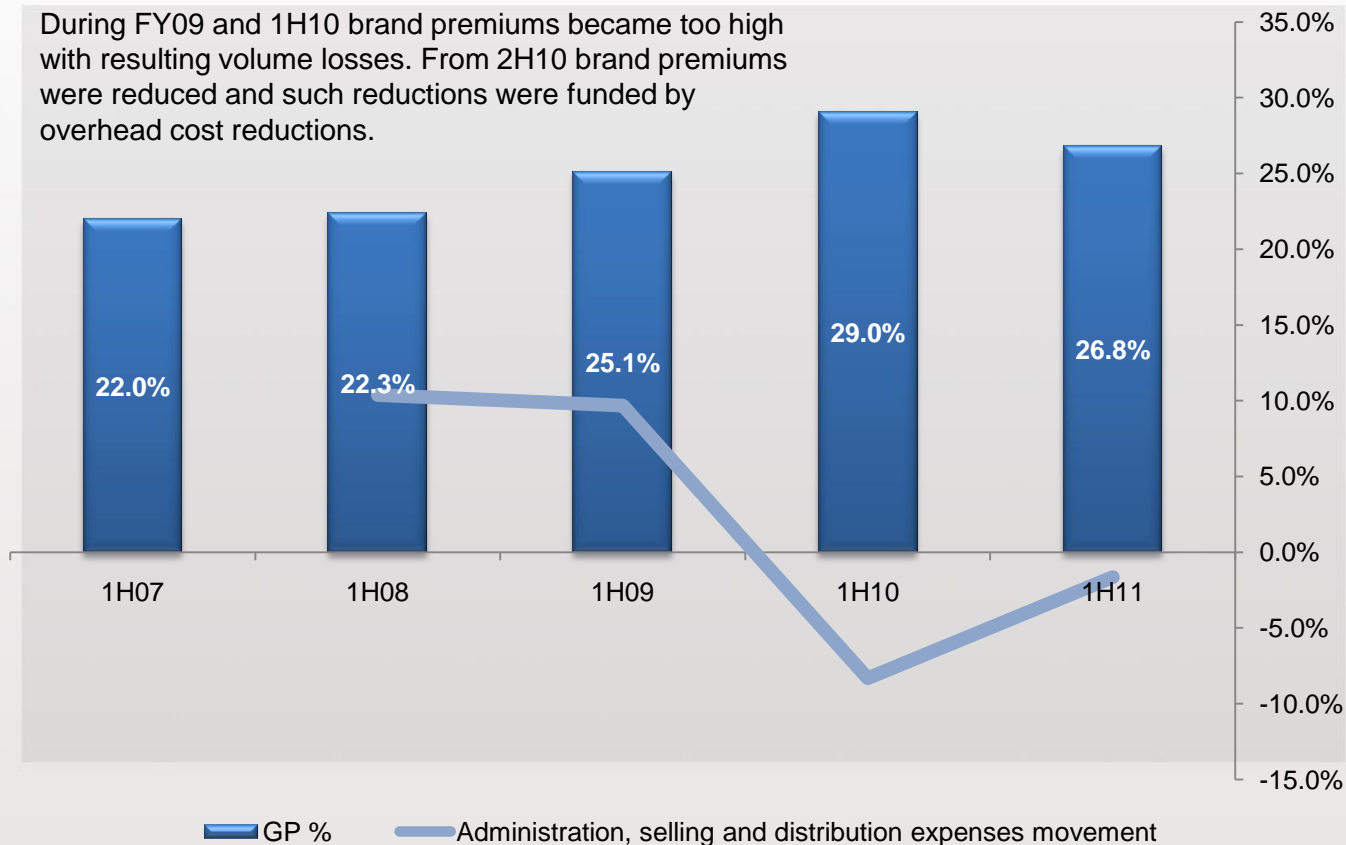


Volume growth



Gross profit margin compared to increases in fixed costs (Project Reset)

During FY09 and 1H10 brand premiums became too high with resulting volume losses. From 2H10 brand premiums were reduced and such reductions were funded by overhead cost reductions.

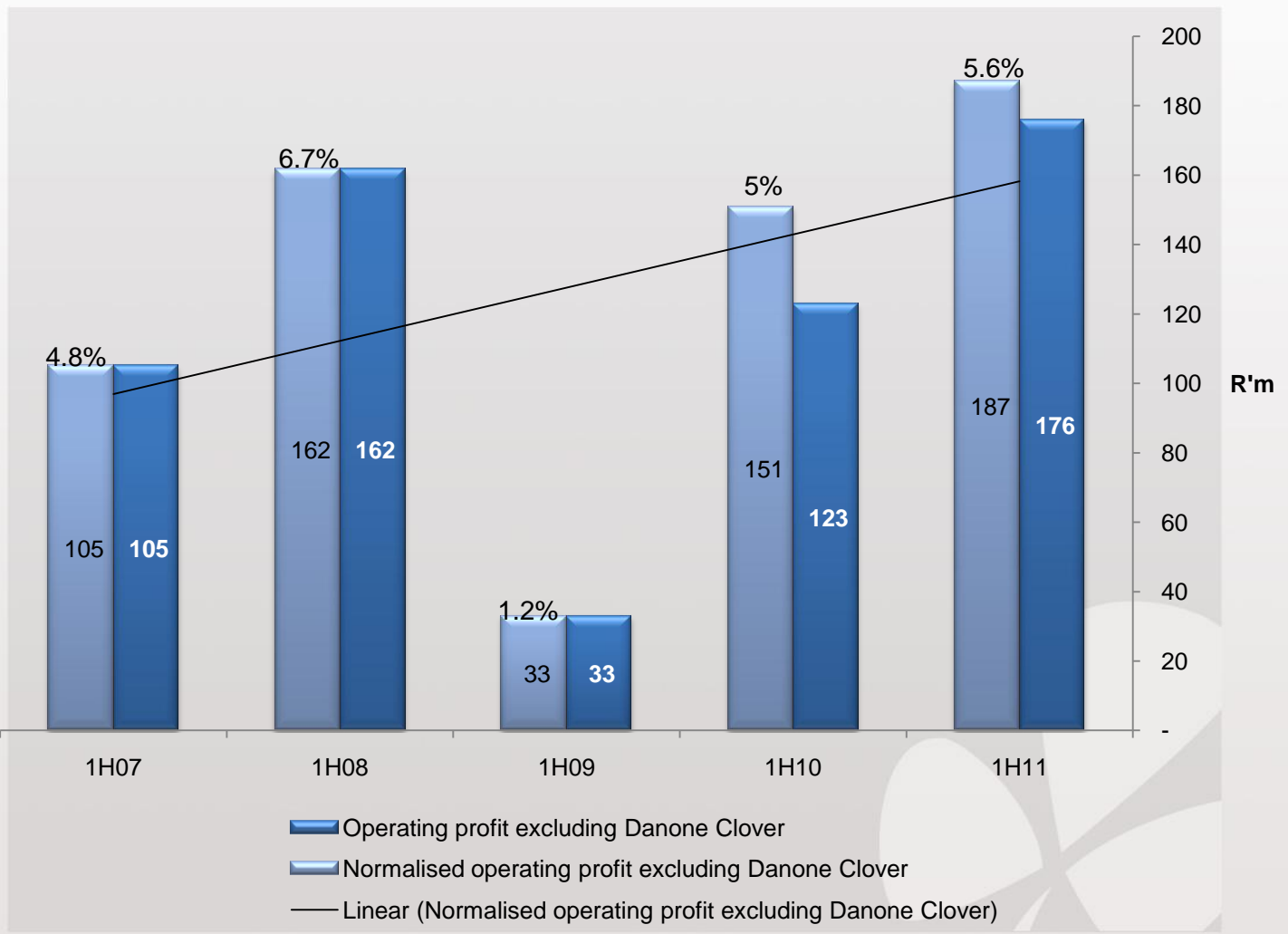


Operating profit and normalised operating margin

Operating profit up 43%

Normalised Operating profit up 24%

Normalised Operating profit % up from 5% to 5.6%



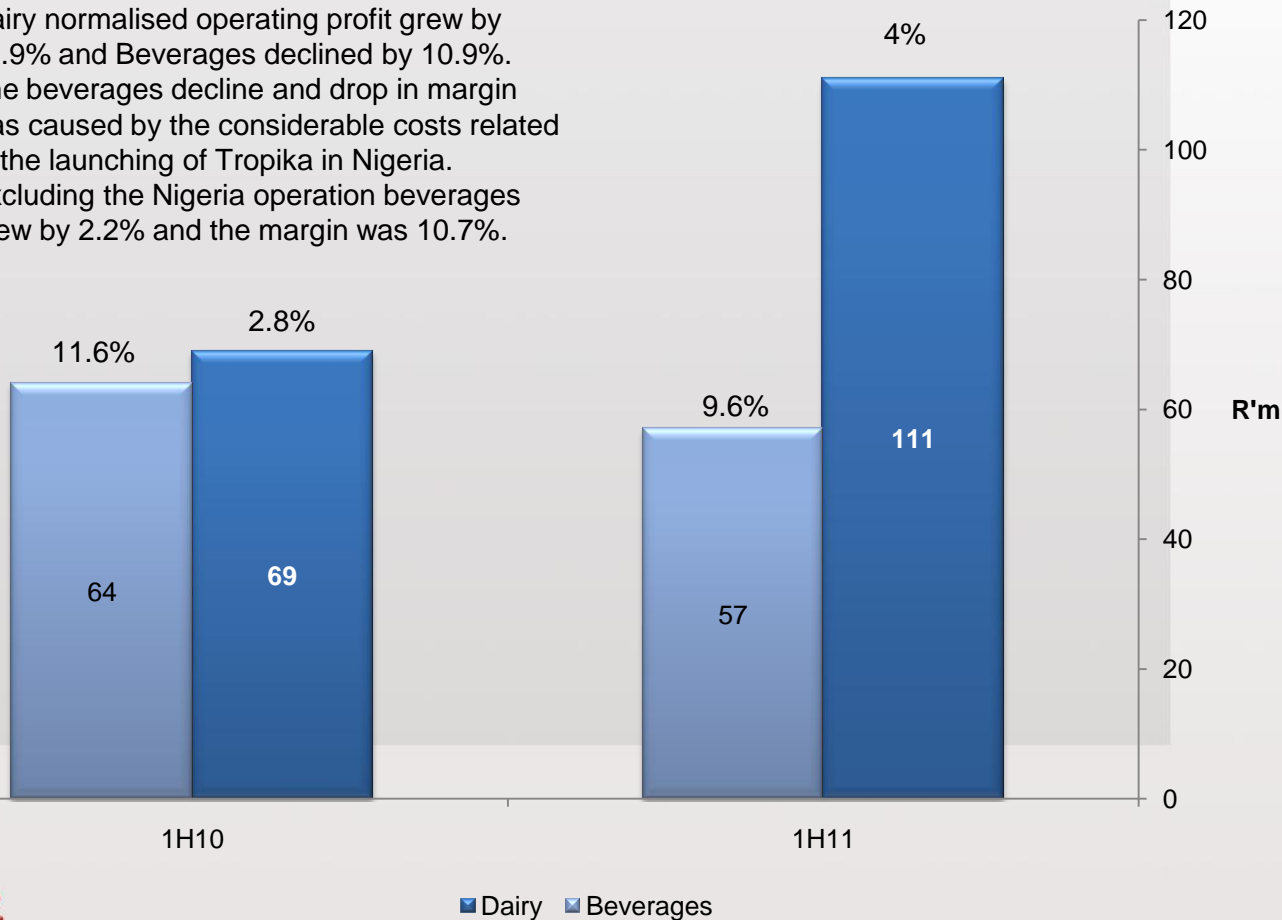
Operating profit increase

- Volume growth resulting from Project Reset
- Much improved product mix
 - 1H10 still included low margin bulk powders and cheese
- Fixed cost savings and efficiency improvements

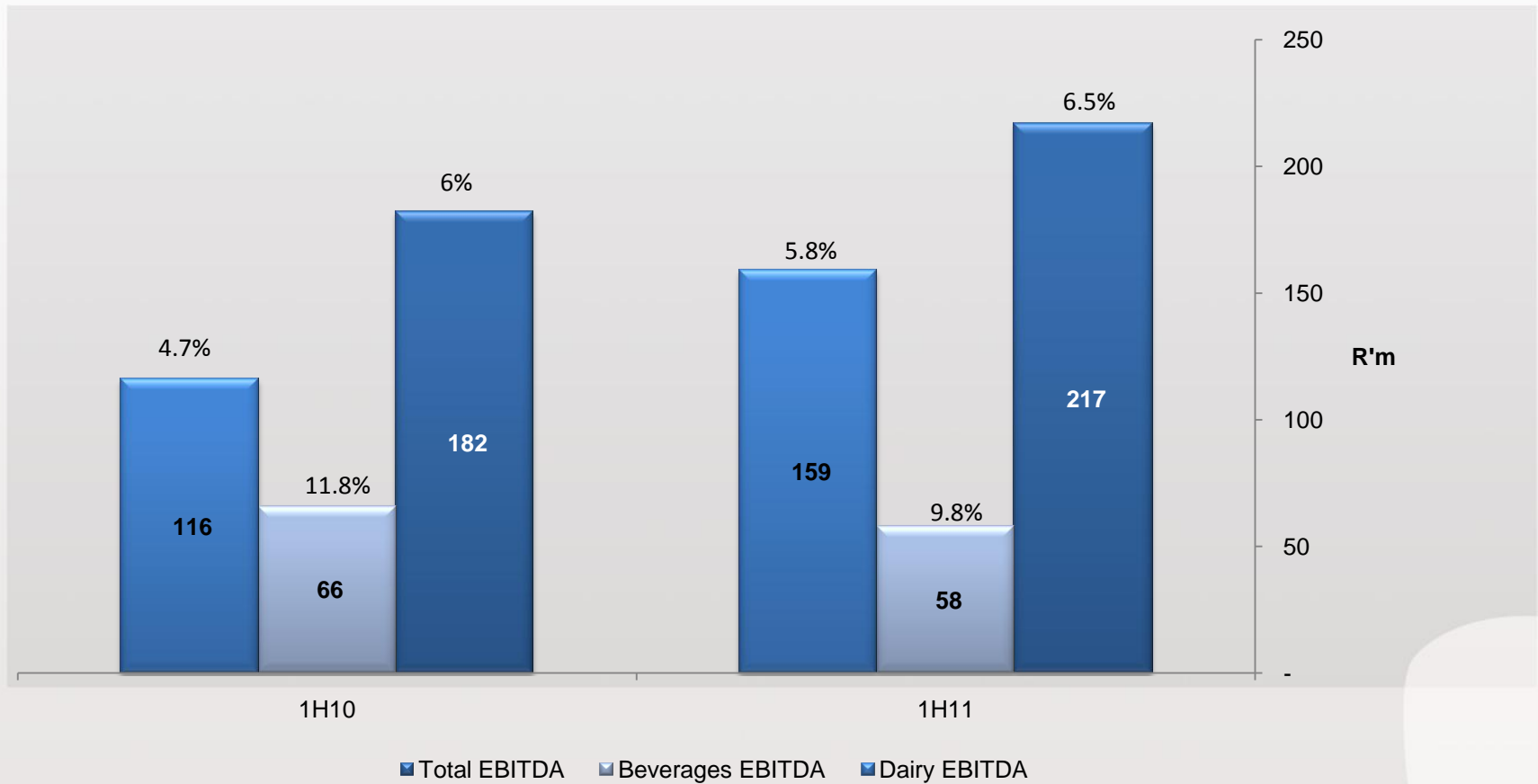


Segment normalised operating profit and margin

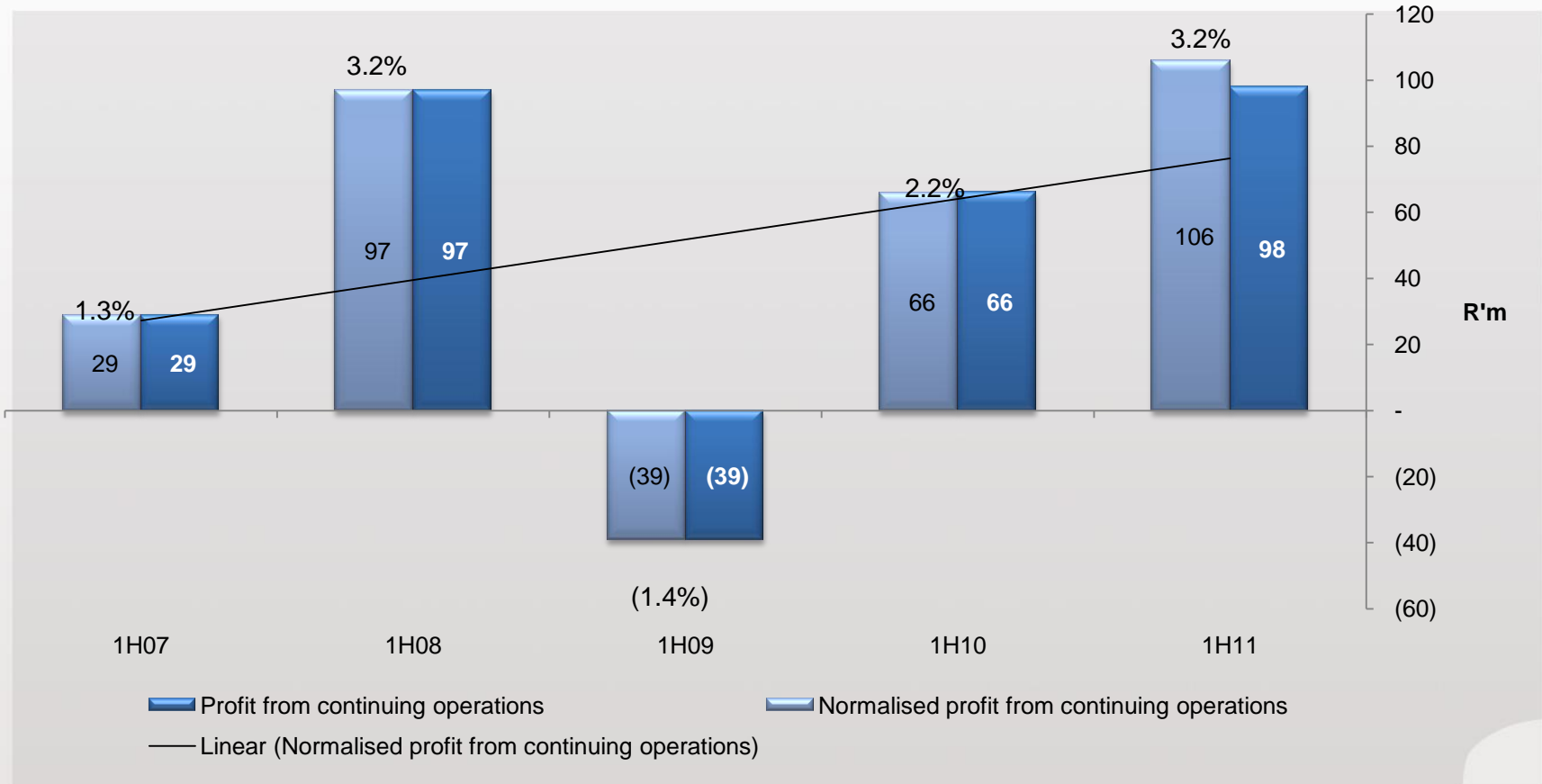
Dairy normalised operating profit grew by 60.9% and Beverages declined by 10.9%. The beverages decline and drop in margin was caused by the considerable costs related to the launching of Tropika in Nigeria. Excluding the Nigeria operation beverages grew by 2.2% and the margin was 10.7%.



Normalised EBITDA

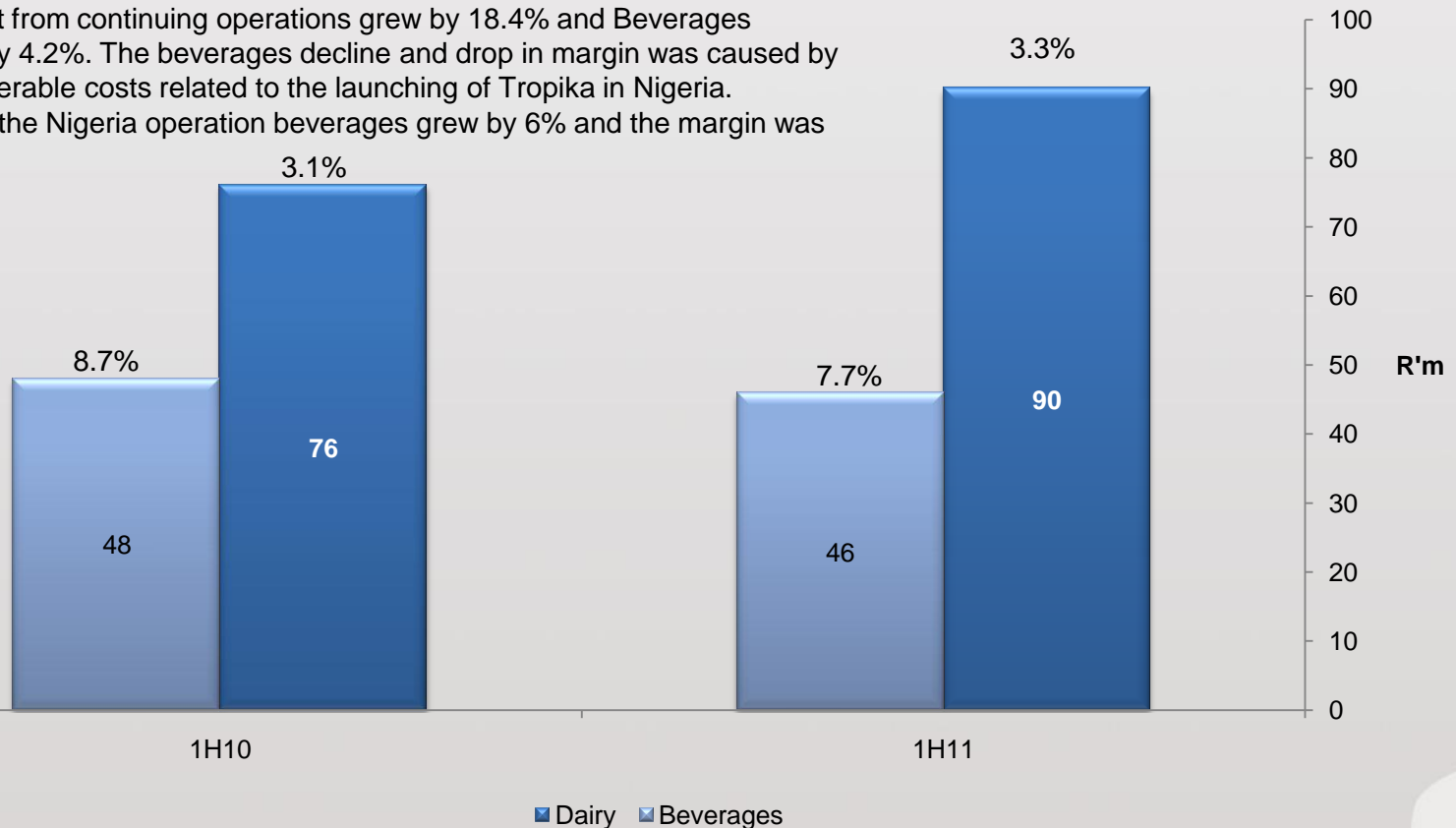


Profit from continuing operations and normalised profit margin

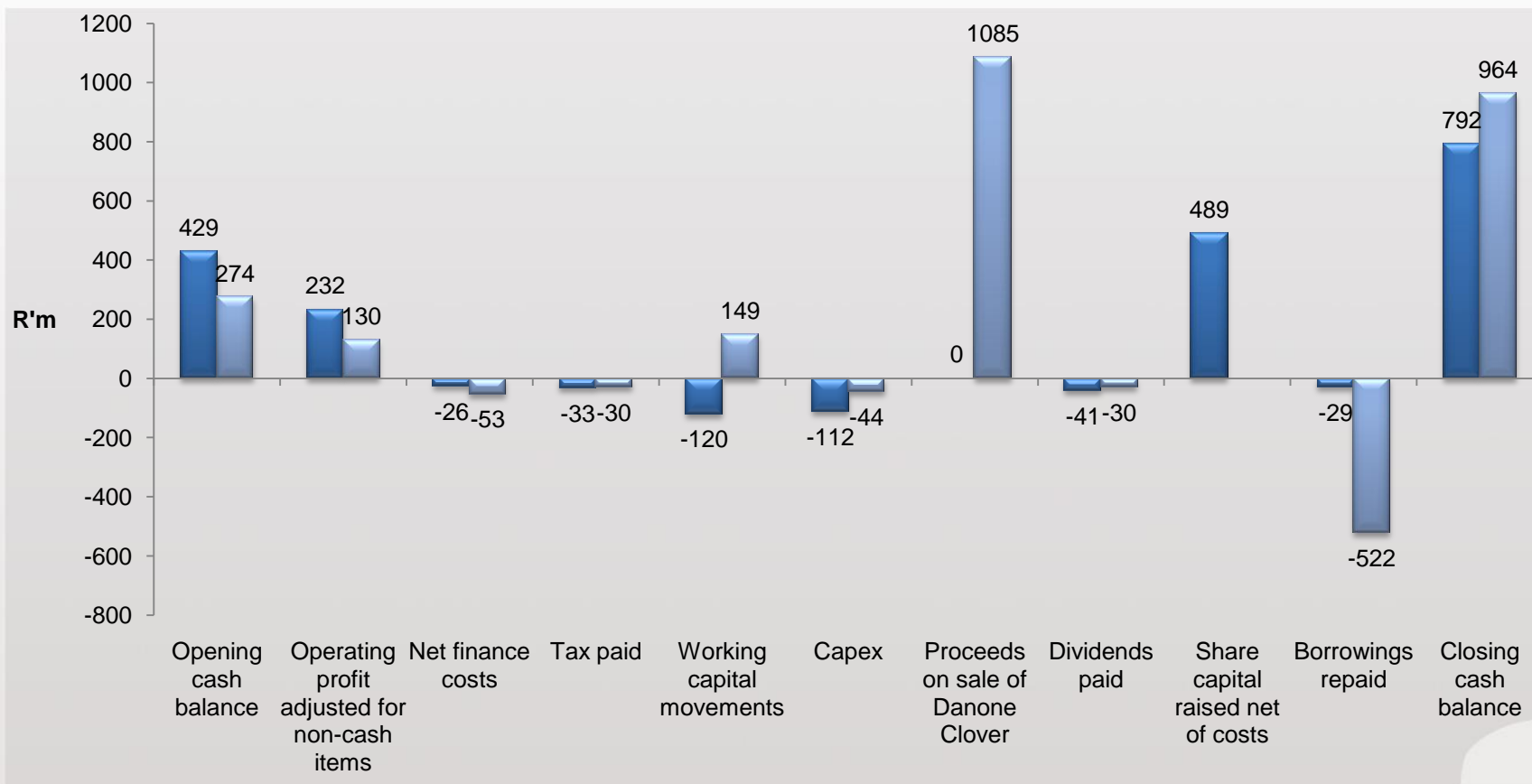


Segment profit from continuing operations and margin

Dairy profit from continuing operations grew by 18.4% and Beverages declined by 4.2%. The beverages decline and drop in margin was caused by the considerable costs related to the launching of Tropika in Nigeria. Excluding the Nigeria operation beverages grew by 6% and the margin was 8.6%.

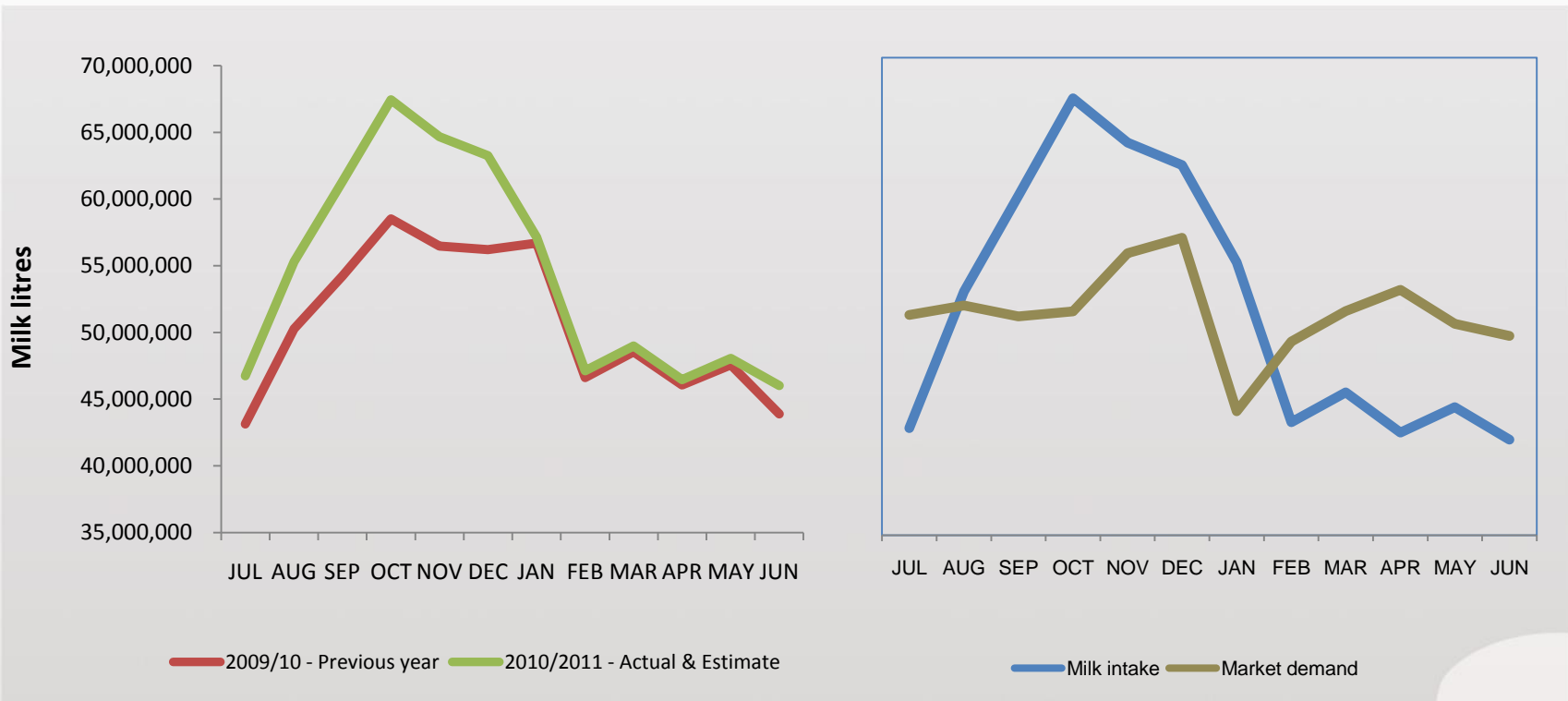


Cash flow



■ 1H11 ■ 1H10

Seasonality of working capital

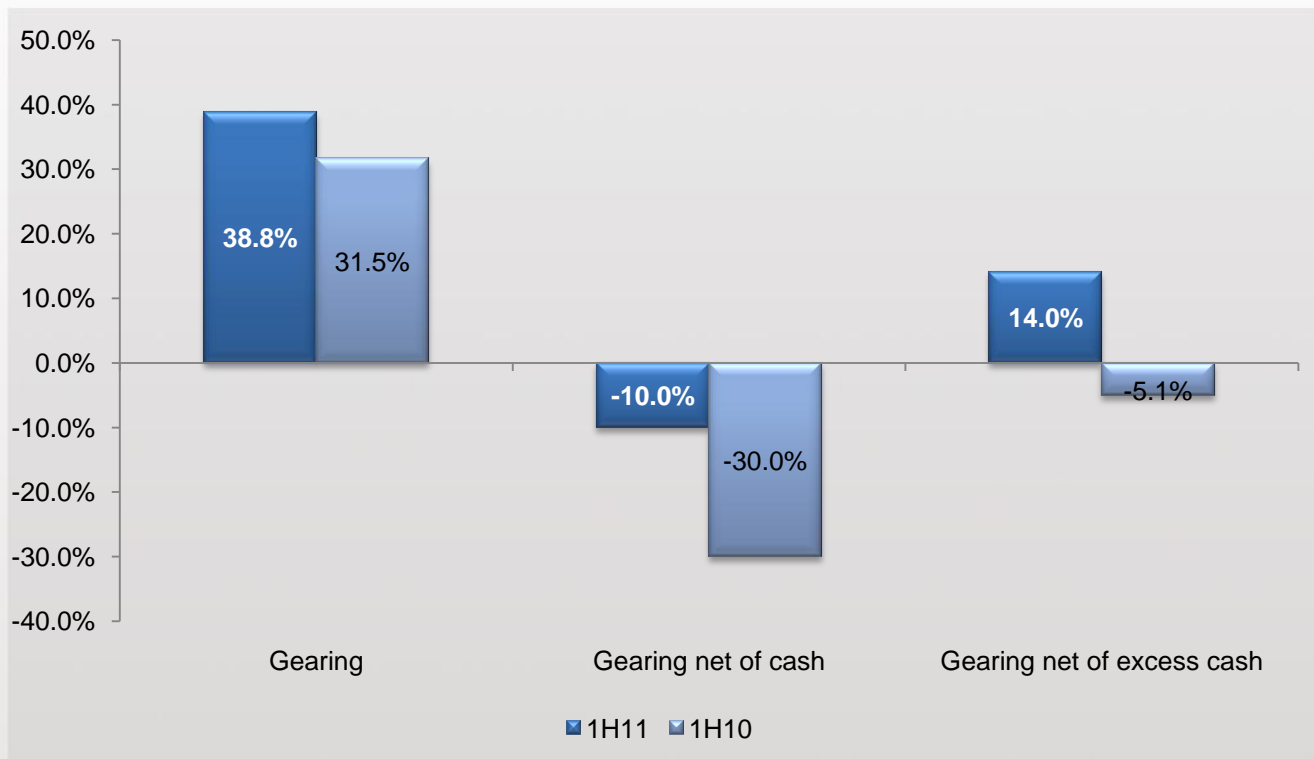


Seasonality of working capital






Period	Market demand	Milk intake (Mil. litres)	Difference (Mil. Litres & %)
2008/09	598.2	638.7	40.5 [6.8%]
2009/10	605.6	608.2	2.6 [0.4%]
2010/11 (Act & Est)	647.8	652.5	4.7 [0.7%]



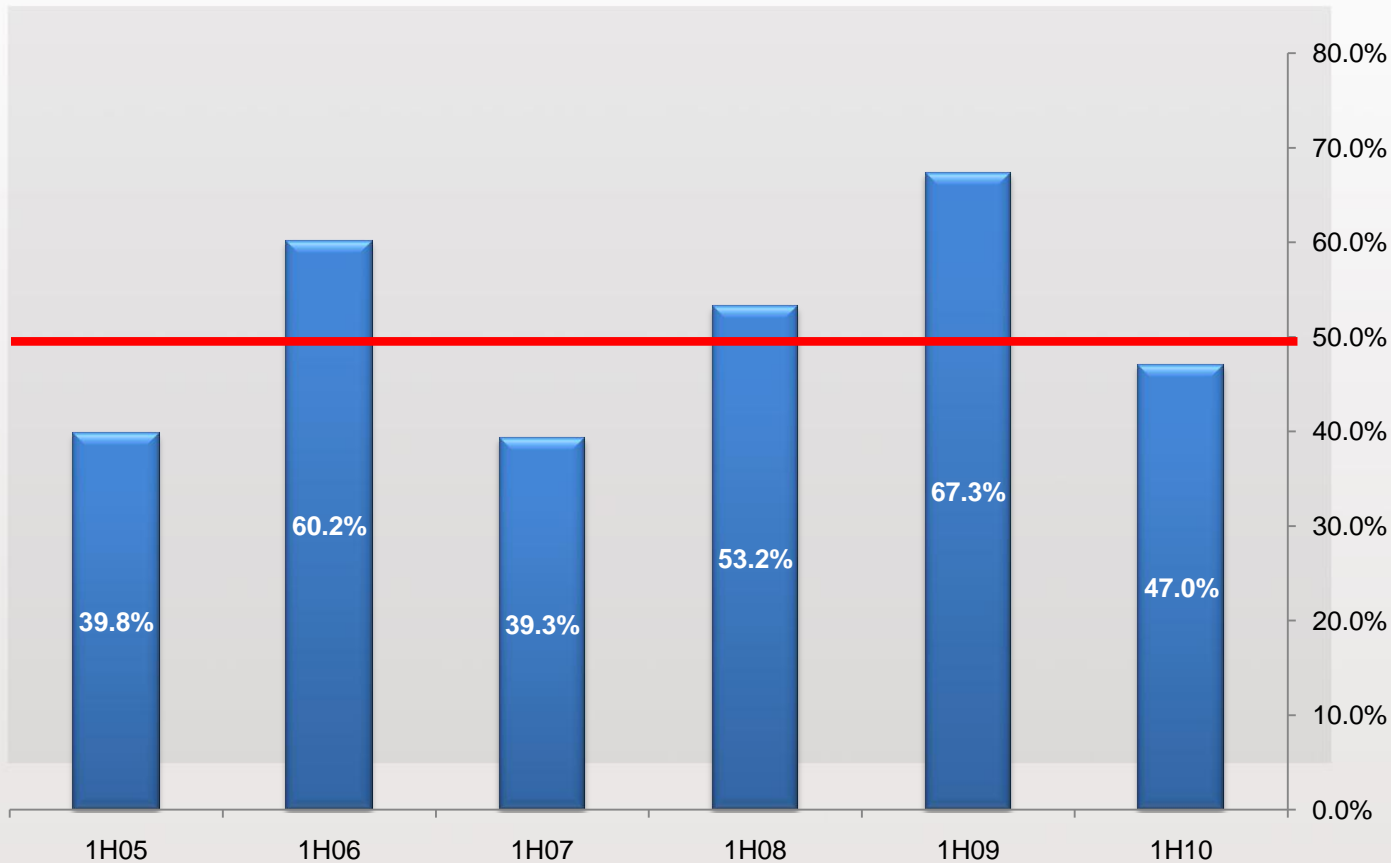
Gearing



Financial summary

-  **Operating performance is healthy**
-  **Gearing is low**
-  **Adequate capital to fund Cielo Blu and other projects**
-  **Capital should deliver margin gains on long term**
-  **Second half cash flow traditionally strong**

Seasonality of results – 1st half as % of full year normalised operating profit



Ancillary matters



Foot and Mouth disease



Background

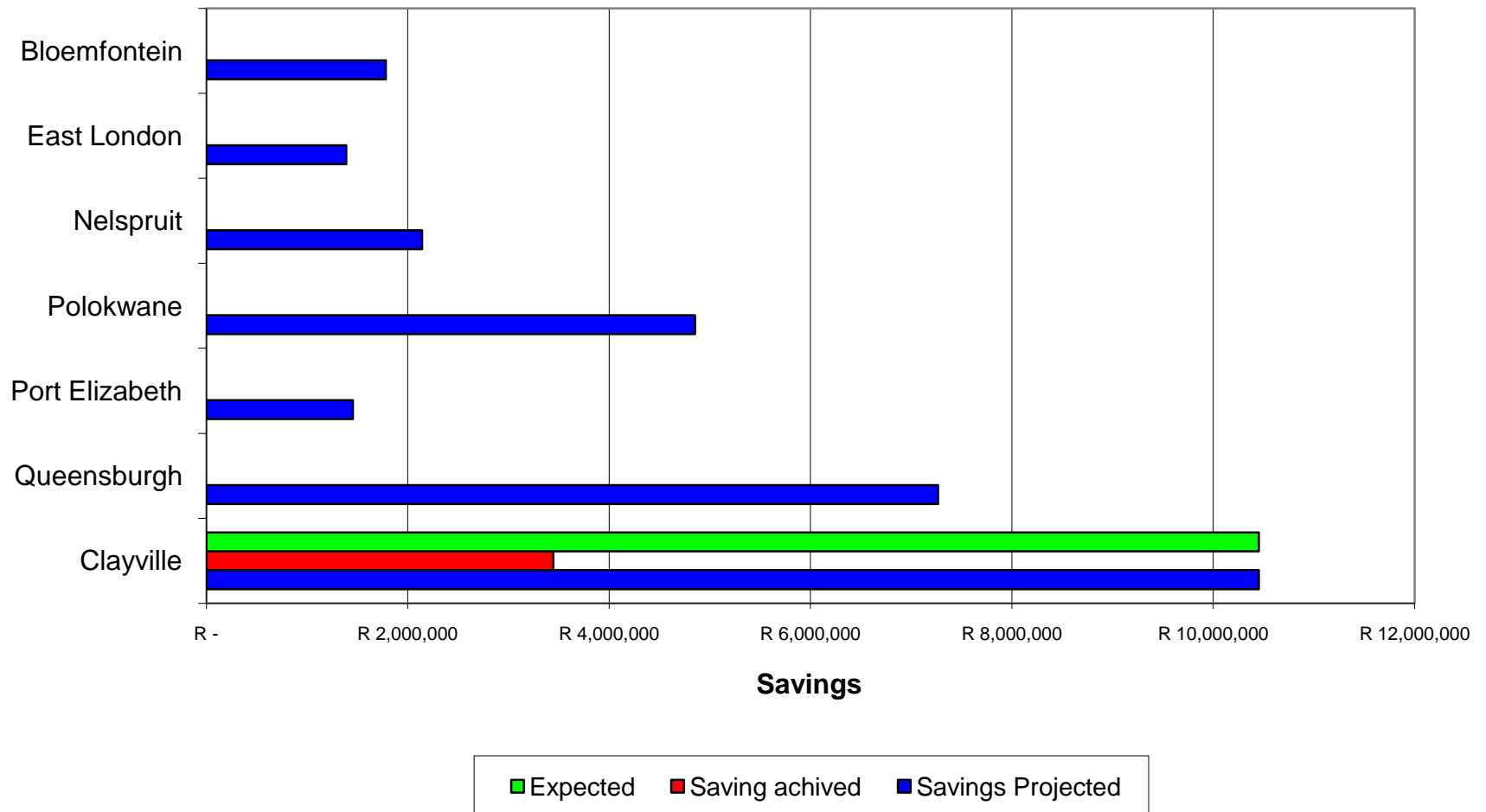
- Foot and Mouth disease does not hold any danger for human health, but can lead to the death of animals (Only affects clove-hooved animals)
- Clover does not acquire any milk from the area in which the possible cases of the disease have been reported
- Clover pasteurises all milk received from producers to protect its consumers and to prevent the spread of the disease
- On 3 March 2011, Clover received notice from of closure of borders at Swaziland, Botswana and Namibia in respect of all dairy products
- Efforts underway to re-open borders

Project Cielo Blu



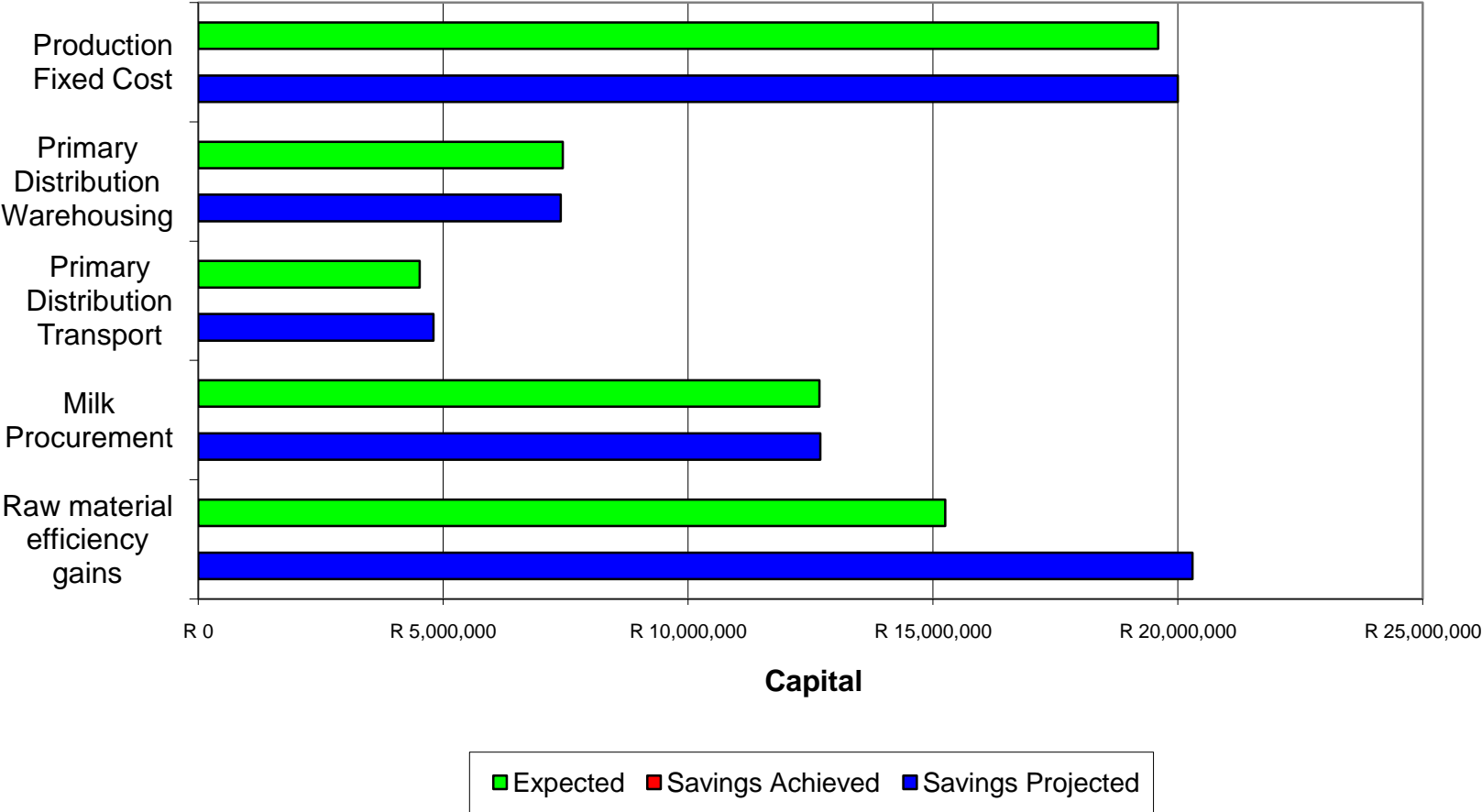
Project Cielo Blu progress

Cielo Blu Distribution Projected Savings



Project Cielo Blu progress

Cielo Blu Production Projected Savings



Cielo Blu - Summary

Factory	Description of expansion	Estimated cost
Midrand	Remove UHT production facilities and move to Port Elizabeth and Pinetown factories. Convert Midrand factory to accommodate beverages storage, production and warehousing capabilities. Combination of chilled and ambient distribution as well as primary and secondary distribution into one warehouse to improve efficiencies, reduce complexities and serve smaller branches and to assist in their future growth. Related civil, equipment and relocation costs.	R135.5m
Mayfair ⁽¹⁾	Relocation of beverages production facilities to Midrand and closure of Mayfair plant.	-
Pinetown	Reorganize of Pinetown factory to accommodate additional UHT production. Related civil, equipment and relocation costs.	R5m
Queensburgh	Increased production capacity at Queensburgh. Current warehousing space is being lost due to production expansion. Warehousing and distribution infrastructure capacity to be created to support the introduction of new products as well as future growth expectations.	R56.3m
Port Elizabeth	Reorganisation and expansion of Port Elizabeth factory to accommodate the majority of the Midrand UHT plant. Related civil, equipment and relocation costs. Port Elizabeth warehousing and distribution infrastructure to be expanded to support future growth expectations, particularly on the back of increased UHT production.	R87.2m
Lichtenburg	Expansions to handle greater raw milk volumes for Botswana market.	R3.8m
Polokwane and Nelspruit	Expansion of warehousing capacity at Polokwane and Nelspruit required as these are currently out of capacity due to high volume growth over the past few years, as well as future growth expectations.	R26.7m
East London and Bloemfontein	Expansion of warehousing capacity at East London and Bloemfontein required as these are currently out of capacity during peak months, as well as future growth expectations.	R22.9m
	Adjustment for inflation and purchasing power	R12.6m
Total including inflation adjustment		R350m

Note 1: It is estimated that retrenchment and plant closure costs of c. R10m will be incurred at Mayfair; however, it is also estimated that R12m may be realised from the disposal of the Mayfair premises. The net impact is a once-off R2m income for Clover from the closure of the Mayfair factory.

Saving		Total saving
Distribution saving	Benefits resulting from increased service level delivery to 97% from 94%, limited primary truck delays, reduced complexity and increased network flexibility.	R36.8m
Production saving	More efficient use of by-products: The efficient use of a milk by-product in other products which will become possible after the relocation of the factories. Milk procurement transportation cost: With move of UHT factory to milk source, less inter branch milk transport will take place net of additional primary costs.	R62.7m
	Primary distribution warehouse cost: Net saving with merger of factories and warehouses from Johannesburg central and rented warehouses to Midrand. Primary distribution transport cost: Net saving in transport from factory to warehouses. Production cost: Fixed cost reduction from merger of factories and closure of Johannesburg central facility.	
Total		R99.5m

Prospects and outlook



Prospects and outlook

- ❖ Maize prices are expected to remain at low levels (near export parity)
- ❖ Exchange rate expected to remain volatile
- ❖ International demand high with resultant higher prices
- ❖ Imports not a real threat due to international prices
- ❖ Economy still sluggish due to unemployment
- ❖ Fuel and electricity costs to be passed on to consumers
- ❖ Stable gross margin expected
- ❖ Moderate selling price increases forecasted
- ❖ Cielo Blu implementation in full swing
- ❖ Africa pilots continue
- ❖ Opportunities still exist in consolidating the secondary industry



Prospects and outlook

Remainder of the year

- ❖ Strong Easter is expected
- ❖ Weather has been favourable to beverage consumption
- ❖ Clover's raw milk intake is in balance
- ❖ Further cost savings and efficiencies are expected
- ❖ No other benefits of Cielo Blu expected in this financial year other than Clayville
- ❖ Supply problems expected on certain lines due to lack of capacity (Cielo Blu will address this in future)
- ❖ Strong cash flow generation expected in second half due to typical seasonality
- ❖ Several new projects are being investigated



Potential Projects : 2011/12

Project	Approx Capex
Manhattan Ice Tea relocation to Mayfair	R3 000 000
Tropika 1,5 lit PET bottle	R1 500 000
Tropika Slush Machines	R250 000
Carbonated filling line (platform)	R20 000 000
Krush 1lit (UHT) (Shelf stable)	R22 000 000
ESL Milk Strategy	R76 000 000
IWS Processed Cheese	R17 500 000
New re-sealable packaging for Elite	R3 600 000
Artificial Cream	R2 700 000
Total	R146 550 000

Conclusion

-  Results within expectations
-  Listing funds towards efficiencies and expansion
-  Focus on market shares and efficiencies
-  Despite unpredictable trading conditions positive results are expected

Thank you

Questions and Answers

