Business review

Once upon a year

Introduction

During recent years, Clover set out on a path of transforming from a supply-driven to a demand-driven company. This evolution continues as Clover has firmly established itself as one of the country's leading branded foods and beverages groups with a strong emphasis on value-added products.

In line with the Group's business strategy, most Clover brands continue to occupy the number one or two position in its chosen product segments.

Building on its impressive 114 year history, the year under review yielded a number of milestones and some challenges, as Clover progresses with Project Cielo Blu.

Operating environment

Given the persistent global financial turmoil, international economists and financial analysts are of the opinion that the status quo could continue for quite some time. While South Africa can take comfort from being partially insulated from the effects of global trends, the local economic conditions remain subdued with real GDP growth expected to remain around 2,5% in the near term.

Against the backdrop of difficult global and domestic conditions, local business in general remained subdued, households more frugal and bank credit providers cautious in their lending.

In the agricultural sector, a combination of severe weather conditions in some of the world's largest food producing regions and various pressures on input costs continued to impact on food inflation. Food security is increasingly becoming topical. The lead-and-lag factor will see food prices rise and impact on general inflation in the foreseeable future, with basic foodstuffs the hardest hit. For Clover, input costs which are subject to inflationary pressures such as maize and fertiliser will have a ripple effect throughout the chain.

Locally, substantial national on-farm cost increases placed severe pressure on milk production. This affected the first quarter of the financial year and lead to a short supply of milk, which was further exacerbated by a lackluster market as a result of national strike action.

Clover's unique milk procurement model mitigated milk shortages to some extent, although the Group did act prudently by entering into further supply contracts with new producers, and increased the price it pays to its producers by total of 60 cents per litre.

Although Clover was unable to recover all of the higher input costs due to the high milk flow season, it managed to absorb a part of the short fall 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 difficult times.

The latter part of the year proved more stable and showed considerable improvement, especially as some of the earlier price increases could more readily be recovered. The Group also benefited from the margin enhancing effects of additional capacity for UHT milk and distribution that came on-stream. Please see the report by the Chief Financial Officer for a summary of the financial performance of the Group for the year under review.

Project Cielo Blu

Project Cielo Blu is part of Clover's supply chain optimisation and most of the R575 million proceeds from the capital raised is being used towards the repositioning and expansion of facilities, which will lead to improved efficiencies, increased production capacity and overall cost reductions.

Project Cielo Blu is progressing well, although the positive impact of additional capacity for UHT milk and distribution is only partially reflected in this review period. As highlighted, 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 are expected to accrue to Clover during the next two years.

Governance and the Board

The Board is committed to the highest corporate governance standards as set out in the King Report on Corporate Governance in South Africa 2009 (King III).

The Board's mandate and how it discharges its detailed requirements in full alignment with the requirements of King III are fully explained in the Corporate governance report in pages 65 to 72 of this Integrated Annual Report. Among the issues the Board pays close attention to the economic viability of the Group, product responsibility and quality, ethics, stakeholder engagement and management, broad-based black economic empowerment, employment equity and transformation, training and development, Clover's environmental impact and strategy as well as its corporate social initiatives.

More information of the above is available in the Social and Ethics committee report and sustainability on pages 43 to 63 of this Integrated Annual Report.

Corporate responsibility

Since its inception in 2004, Clover's major Corporate Social Investment ("CSI") initiative has been Clover Mama Afrika which today have an impact on more than 14 000 children and more than 2 000 elderly through 35 dedicated "Mamas". Clover Mama Afrika continued to grow from strength to strength over the past year under the leadership of Prof Elain Vlok and this was recognised with the project winning the prestigious Proudly Homegrown – CSI Champion of the Year Award in 2011.

For further information:

Please see pages 65 to 72 or visit our website www.clover.co.za/content/390/the-clover-dairy-guide/

Reported in line with:

GRI and King III

Clover has been part of South Africans' lives for the past 114 years and aims to continue playing an important role in the development of the country's art and culture. The Group is now in its second year of a five-year sponsorship of the Clover Way Better™ Aardklop National Arts Festival. Apart from the commercial benefits, Clover's involvement allows for a number of productions to be performed across the country, exposing the performing arts to communities that would otherwise not have had the opportunity.

One of the contributing factors to Clover's success is its people. They are the driving force enabling us to be consistently more competitive in our chosen markets. We are convinced that our people will also be the single biggest contributor to Clover's future growth, profitability and excellence and the Company has a number of successful initiatives aimed specifically at ensuring that our employees are productive and rewarded through their work.

During the year under review, Clover further developed its environmental strategy with significant benefits expected from Project Cielo Blu in terms of a reduced carbon footprint. More details on the various initiatives can be found in Clover's Social and Ethics Committee report and sustainability on page 43 to 63 of this Integrated Annual Report.

Transformation

Clover is fully committed to achieving B-BBEE as outlined by the Department of Trade and Industry and received a Level 6 rating in a recent external audit by Empowerlogic. The Group views B-BBEE as an opportunity to increase economic activity, creating sustainable livelihoods for as many of the country's inhabitants as possible as well as developing a sustainable consumer market. Clover also practises preferential procurement in the supply chain and approximately 62% of the money spent by the Group in its non-milk procurement process is spent with suppliers who enjoy various levels of B-BBEE compliance status.

In the sphere of employment equity, Clover has made steady progress in increasing the number of people from designated Groups at management level and have completed detailed plans for a three-year employment equity process, which will ensure that Clover's workplace remain free of unfair discrimination and that reasonable progress is made towards employment equity in the workplace.

A key business strategy to support Clover's performance and growth and to position it as the industry's employer of choice, is focused employee training and development. The Group's training and development focuses on, firstly, building competence that will ensure effective execution of operational tasks, and, secondly, on generating capacity in human resources that will ensure sustainable performance and growth.

Clover's Competence Development Model, designed principally to increase the competence of previously disadvantaged individuals for advancement has been in operation for some time now and is yielding encouraging results.

Prospects

The global economy is set to remain uncertain in the year ahead and we are bracing ourselves for another difficult year economically in South Africa.

In spite of this, Clover is confident that the continued implementation of Project Cielo Blu, ongoing cost saving drives and other margin-enhancing projects approved by the Board will ensure Clover retains a healthy market share and strong balance sheet.

Land reform

A comprehensive program of land reform in South Africa is urgently needed as it is clear that current policies have been unsuccessful in rectifying the disastrous agricultural and land policies of the past. Food security is receiving high levels of unprecedented attention globally and in South Africa, as with other developing countries, must consider the crucial role that land plays in the development and sustainability of a thriving agricultural sector. This in turn plays an important part in alleviating poverty in rural communities. To achieve meaningful progress, a number of processes need to be addressed urgently, including:

- Developing the necessary level of skills required to run commercially viable farming operations.

- Encouraging and supporting family-owned and -run farming enterprises.
- Ensure productive use of communal and state-owned land for the establishment of commercial farms by way of long-term leases.
- Maintain the viability and sustainability of a region's existing agricultural infrastructure.

Recommendation and election of a new Chairman

It has been an honour and privilege to have been able to contribute to this remarkable Group as Chairman for the last seven years and as a Director for the last 22 years, during which time I have been closely associated with a great many of the excellent Clover people who drive its success.

The time has now come for me to step down, however, to devote myself fully once more to the relative tranquillity of dairy farming in KwaZulu-Natal and to look back with a great deal of pleasure on how Clover has developed and changed over the years that I have known it.

The Nomination Committee will make a recommendation to the Board with regard to a successor as Chairman whose appointment as Chairman will be voted on by the Board as soon as possible after the forthcoming Annual General Meeting.

Appreciation

In taking my leave of the company, I wish to thank my colleagues on the Board most sincerely for their personal friendship and for their wholehearted commitment towards Clover and its people. I have been associated with many of the incredible people who have served Clover so passionately and loyally over many years and I would like to thank all those who have contributed to the group's success and growth during good and difficult times.

It is difficult to single out individuals but during my tenure as Chairman the creative thinking and inspired leadership of CEO, Johann Vorster, ably supported by his Executive Committee has charted the ground breaking transformation of Clover and led to a new level of excellence of which we are justifiably extremely proud. Its effects will certainly remain an indelible part of the group's history. I consider myself fortunate to have had my term coinciding with the appointment of Johann as CEO and enjoyed a professional association and valued friendship with him. As company secretary Manie Roode has played a crucial role in advising and supporting the Board. My sincere appreciation Manie, for the invaluable support and advice you have given me and for the interesting and sometimes challenging times we have shared.

We have a very strong compliment of Independent Directors all of whom are making a valuable contribution in the best interests of Clover. I would like to make special mention of Desmond Smith, though no longer on the Board, who played a pioneering role for the group in this regard. Tom Wixley has been associated with Clover for many years and I would like to thank him personally for the wise counsel and great patience he has afforded me in so many ways and for the value he has brought to the Group.

It remains only for me to wish the new Chairman, the Board, and all stakeholders, everything of the very best for an exciting road ahead.

John Bredin

Chairman of the Board

In olden times

Performance overview

Clover is proud to announce another set of solid results for the year ending 30 June 2012. Revenue increased by 10,4% to R7 223,9 million from R6 542,3 million, operating profit by 16,4% to R371,2 million from R319,0 million and the operating margin for the year improved from 4,9% to 5,1%.

Clover continued its strategy of investing in and concentrating on branded and value-added products. In most categories Clover increased its market share except, notably, UHT (long life) milk – where there were new low priced entrants to the market.

As a result of continuous input cost pressures at farm level, milk prices were increased by 60 cents a litre during the months of January, February and March, which had the desired effect of stimulating milk flow. However, the milk price was subsequently reduced by 20 cents a litre from August 2012, ahead of the high milk flow producing season in order not to over stimulate milk flow. Cost pressures on farms have, however, not abated, and adjustments will be made when considered necessary.

Clover's major capital expansion and repositioning program – Project Cielo Blu – is still on track for completion towards the end of 2013. No major delays, other than the delay at the Queensburgh distribution facility due to a new network design, or material over-expenditure have occurred to date.
The continuous drive to lower operational costs by increasing efficiencies has had positive results, with cost savings being invested back into lower selling prices to achieve the desired volume growth.

Brand strength and performance

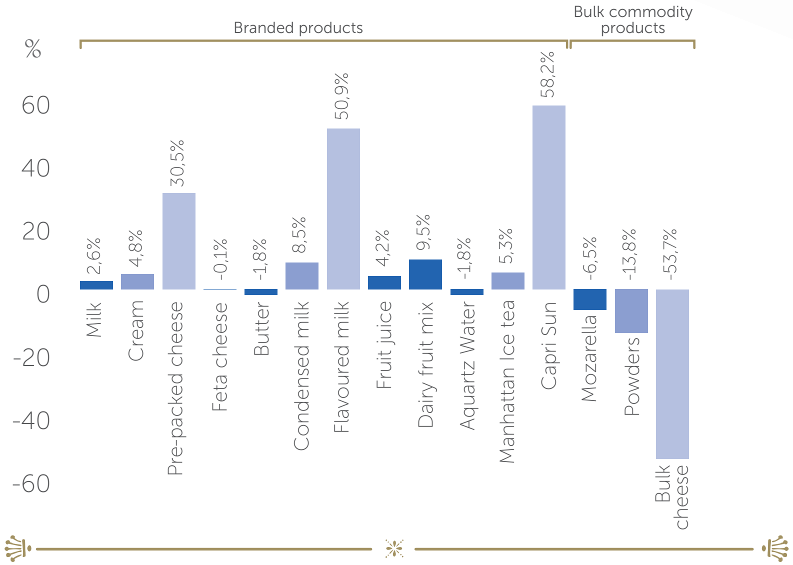
The strategy of focusing the product mix on branded products rather than bulk commodity products yielded further dividends with branded product volume growth of 5,5% for the year and bulk commodity product volumes shrinking by 16,6%. This resulted in an overall volume growth of 2,4% for the year.

Notable successes achieved during the year on important brands are:

- Super M, which recorded a 53,8% year-on-year increase in volume.
- Clover Krush 100% fruit-based juices, which performed well, building on last year's significant growth, with volumes up by 11,2% year-on-year.
- The Clover Krush 2lt Elopak carton launch won the Diamond Arrow Award of PMR Africa as the Most Successful Product Launch of the last 12 months in FMCG.

- Major marketing promotions were held during the year for Tropika, Capri-Sun, and Super M and as a result:
  - Tropika sales volumes grew by 5.8% from an already high base.
  - The Tropika Island of Treasure reality show screened on e.tv achieved higher audience ratings than Survivor SA and frequent mentions in social media.
  - At the 2012 Annual PMR Africa Awards, Tropika won the Diamond Arrow Award for the year's Most Successful Marketing Campaign in the entire FMCG sector.
  - Capri-Sun sales rose by 58% in volume year-on-year though from a relatively low base.
  - Super M volumes grew through innovative new brand extensions, a major promotion and restrained inflationary price increases.
  - The Danao relaunch resulted in volumes increasing by 155%.

Volume growth 2011/2012



The main marketing campaign, however, was the "Way Better™" project marking the implementation of the new Clover Master Brand Strategy covering a multitude of media types. The highlights included a spectacular launch event, a corporate video, a teaser campaign, packaging designs, industrial theatre at all branches and television commercials. The results both in South Africa and internationally were truly remarkable.

The television commercial alone achieved the following international awards and accolades:

- Best Animated TV in the INFOCOM EME Awards (India).
- First place in the 2011 MOBIUS Awards.
- Merit award at the ONE SHOW Awards (evaluating best TV advertisements in the world prestige competition).
- Finalist in the CLIO Awards.

Clover fresh dairy products received the Diamond Arrow from PMR Africa as the Best FMGC Producer of the last 12 months while Clover Milk and Cheese received a Gold Arrow as the Best Quality Products offered by an FMCG producer.

A summary of new products introduced is:

- UHT Prisma pack.
- Tropika pouch.
- Tropika 2 lt Elopak.
- Tropika 1.5 lt.
- Krush 2 lt Elopak.
- Elite cheese 450 g.
- Clover cheese jumbo pack 800 g.

Various major new product platforms, strategies and products are planned to support future growth and profitability.

New products to be launched in Nigeria are a full range of 500 ml Tropika and new Apple and Coco-Pine flavours, which tested favourably. Clover is also pursuing the launch of other products in Nigeria.

Operational environment

The year under review was again characterised by indifferent economic signals with conflicting consumer behaviour. After the industrial action activity experienced during July and August 2011, consumer spending needed time to normalise. October was the first "normal" month, but consumer spending never really picked up to the extent that manufacturers expected. The Christmas period was positive but Easter was again disappointing. Higher fuel and other energy charges had a significant effect on consumers in the latter part of the financial year. Fortunately, job creation and not industrial action topped the agenda of organised labour, which will help to smooth wage earnings and hence consumer spending. The high inflationary input cost environment is still having a negative impact on consumer spending, with consumers trading down on historically higher value items.

Strategic objectives

Clover's short-to-medium term objectives are clear, with the completion of Project Cielo Blu the main priority. The main strategic pillars, which underline the investment case are as follows:

1. Leveraging off its strong sales and distribution network.
2. Leveraging off its strong heritage brand.
3. Continuous brand extension.
4. Aggressive product platform extension.
5. Addressing supply chain cost inefficiencies.
6. Capitalising on its extensive route-to-market capability.
7. Seeking consolidation opportunities in the FMCG market.
8. Sensible Africa expansion.

Project Cielo Blu and subsequent Capex programs approved by the Board will address the following:

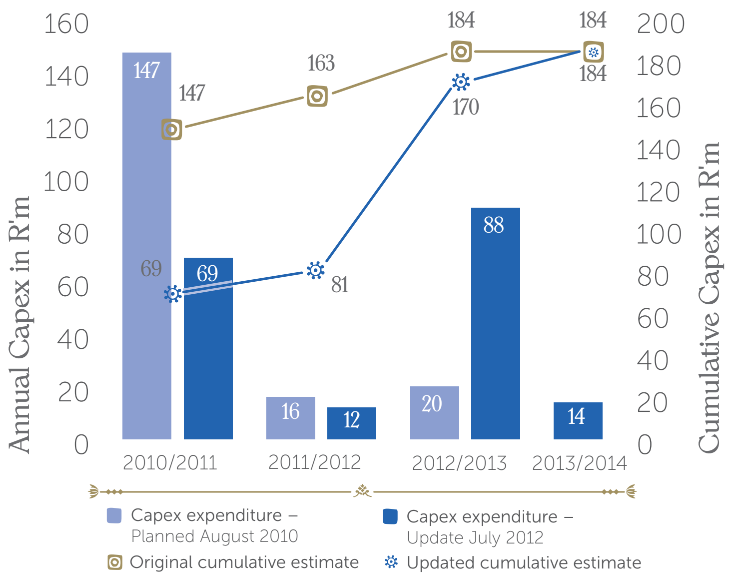
1. Capacity constraints in Production.
2. Capacity constraints in Distribution.
3. Inefficiencies in Milk Procurement.
4. Repositioning of Production facilities.
5. Inefficiencies in Distribution.
6. Investment in new technologies.

Other capital projects approved by the Board are:

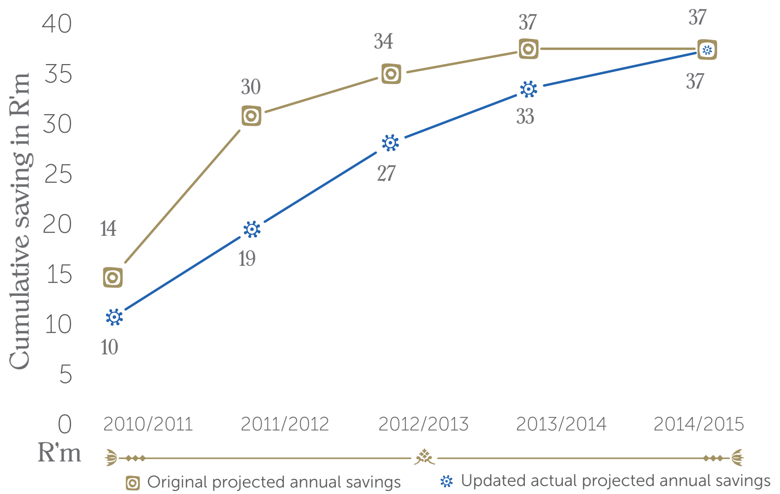
Project	Status
Expansion of Ixopo Milk Procurement Depot	To be completed during April 2013
UHT strategy	To be completed by November 2012
ESL milk strategy	To be completed by November 2012
Processed cheese strategy	To be completed by March 2013
Relocation of cheese factory	Investigation ongoing

To date Clover has spent R171 million of the earmarked R338 million. The past and planned spending on Project Cielo Blu is set out in the charts:

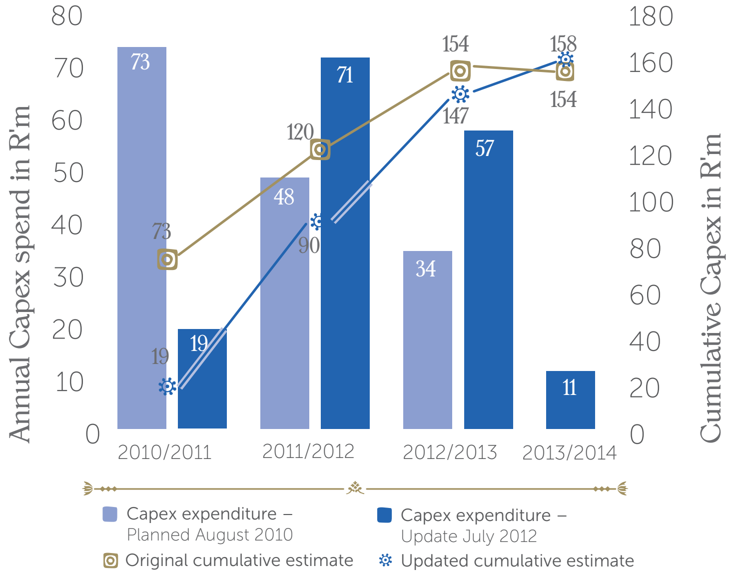
Project Cielo Blu – Distribution – Capital expenditure



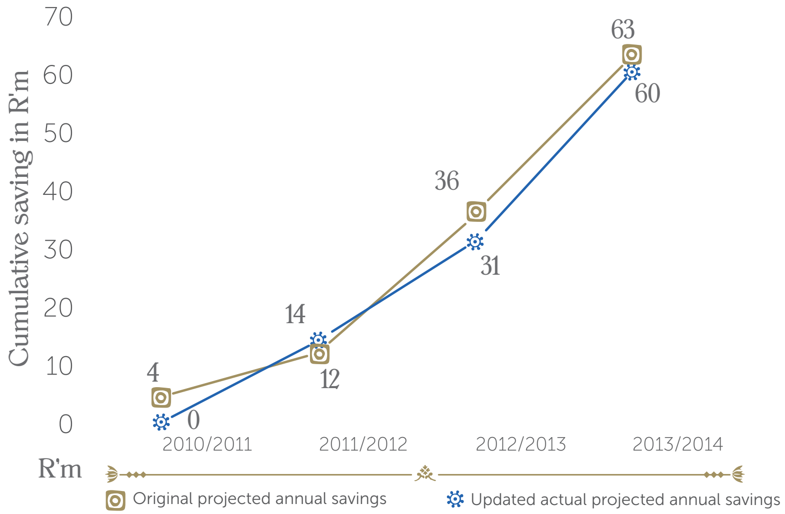
Project Cielo Blu – Distribution – Benefits/savings



Project Cielo Blu – Production – Capital expenditure



Project Cielo Blu – Production – Benefits/savings



Outlook

Major inflationary cost pressures have forced Clover to increase selling prices in order to recoup additional costs. As with all price increases, there is a lead-and-lag effect, which affects sales volumes. It is expected that input cost pressures will continue and further increases in selling prices cannot be ruled out. Although Clover can pass these cost increases on to the consumers, the focus will be on continuous improvements in efficiencies to counteract as many of the input cost increases as possible.

Clover will continue to:

1. Reposition and expand its infrastructure.
2. Invest and expand its brands.
3. Focus and improve its distribution capabilities.

Clover's main aim is to make available as many of its products as economically feasible to consumers who already cherish and admire its products. Market trading conditions are, however, unpredictable and despite planned cost savings, the exact effects of these initiatives remain uncertain. Clover is nevertheless confident that the actions it has taken during the year will yield positive results in future.

Subsidiaries and joint ventures

CFI has had an excellent financial year with profit for the year ending 87% higher than the previous year. This joint venture with Fonterra of New Zeeland focuses on the sub-Saharan Africa ingredients market. Further areas of growth have been identified for expansion.

Clover Botswana produced solid results and continued to improve. The production facilities are currently being expanded to allow for planned growth. This Company is now 100% owned by Clover SA.

The operations of Clover Namibia, Clover Swaziland and Clover West Africa are immaterial in the Group context at present. Clover West Africa operating in Nigeria, however, poses huge potential and the Namibian market also holds the promise of healthy growth in market share. We are actively pursuing the expansion of our businesses in these countries.

Mergers and acquisitions

During the period under review, Clover engaged in the following corporate actions:

- The successful acquisition of the 30% minority shareholding in Clover Botswana.
- The successful acquisition of the 45% minority shareholding in Clover West Africa.
- The acquisition of a 100% shareholding in The Real Juice Co. Holdings (Pty) Ltd from AVI Ltd, which was conditionally approved by competition authorities. The acquistion will come into effect on 1 October 2012.

Africa expansion

Clover's Africa expansion is based on three platforms:

- Exports into Africa: As the South African retailers expand into Africa, Clover's branded products follows. A healthy growth in exports is experienced.
- Growth in the sub-Saharan business through the activities of CFI. New ingredient business opportunities are constantly identified and serviced.
- Nigeria: Currently Clover's presence is limited to Tropika, but plans are being formulated to expand into the manufacturing, distribution and sales of UHT and other Clover products.

Sustainability

The Group's sustainability strategy is based on the acknowledgement of its responsibility to all stakeholders in order to ensure its long-term viability.

In pursuing this strategy, the Group has to continuously identify and consider the impact of its business on all its stakeholders.

Clover also recognises its responsibility to reduce, and as far as practicable, to eliminate the impacts of its business on the environment. This responsibility relates not only to operations within Clover's control, but also to Clover's supply chain partners, which are recognised to be responsible for significant environmental impacts in supplying Clover.

The detailed Social and Ethics Committee report and sustainability is set out on pages 43 to 63.

Human capital

"People are our most important assets" is a phrase that has been used for many years, but the ability to identify, understand, measure, monitor and enhance the impact of this factor remains elusive.

Clover knows that an experienced, trained and motivated management and workforce that is fully behind and aligned to the organisation's business vision and mission can create the greatest competitive advantage available to any company.

Human capital creates structural capital. It incorporates a broad range of capabilities that an organisation possesses through its day-to-day activities. It is the ability to develop "executional capacity" using high quality, low cost corporate systems and processes by which products and services are designed, developed and delivered.

For a more detailed narrative on Clover's human capital development please refer to the Social and Ethics Committee report and sustainability on page 58.

Appreciation

Clover's Chairman, Mr John Bredin, has decided to retire from the Board after 22 years of devoted service to Clover, its predecessor National Co-operative Dairies (NCD) and the Clover producers. John's family has served NCD for three generations with John's grandfather serving as Chairman of NCD. His wife Paulette's father was a Director of NCD.

During his time on the Board John saw NCD being converted from a co-operative into a company and later as Chairman steered the Company through the difficult capital restructuring of 2010 and the subsequent listing on the JSE at the end of 2010. Under his guidance the Company has progressed to where it is now finally in a position to realise its full potential and unleash the power of the Clover brand.

I want to thank John for the tremendous support that he has given me and my management team. Without his support we could never have achieved the radical restructuring and listing on the JSE of 2010.

I want to wish John a happy retirement and great fishing!

Our supplier partners have really showed their commitment in this year to help Clover to reduce the cost of the supply chain, invest in and pursue new technology. For that I thank them.

Mr Tom Wixley our Lead Independent Director deserves praise for his guidance and leadership on the important matters of sustainability and governance and also for his positive role and words of inspiration in difficult times.

Milk producers in South Africa are brave people that are exposed to fluctuating weather patterns, security concerns, land reforms and fluctuations in the milk price. This year saw its fair share of droughts, perfect conditions, floods, snow, spiralling feed costs, easing feed costs and then again spiralling feed costs. This created volatile farming conditions in many areas which was evident from the milk flow. I want to thank our producers who stood by Clover in these challenging times and never stopped supplying the quality milk without which Clover's products will be mediocre at best.

I want to thank the Board for their engagement in strategy setting in order to ensure that Clover is a company of choice for investors.

My executive team has worked selflessly to gain investors' confidence in our ability to execute and deliver on the promises made to them. Thank you.

Most importantly I want to thank the Cloverites who have become used to being trusted to do what they do "Way Better", every day.

Johann Vorster

Chief Executive

Long, long ago

Overview

The year was characterised by high cost inflation, volatile on-farm input costs and resultant erratic milk production.

The first half of the year was marked by lower than expected milk production due to sharp increases in feed and other input costs. Farm-gate milk prices were increased early in the second half of the year to counter this trend. This, together with a subsequent easing of feed and other input costs and favourable climatic conditions in the main milk production areas, resulted in milk production being over-stimulated and consequently increased milk supply steeply during the autumn. This flattened the usual seasonal milk intake trend to some extent. While such a trend would normally be welcomed, the higher than expected national autumn milk production made it difficult to pass on to consumers the high inflationary cost increases during the traditional autumn price increase "season".

Dairy volumes were somewhat constrained by the short supply of raw milk during the first quarter of the year, as explained in the Interim financial report. Clover's increased selling prices introduced at the end of the summer, together with the high national milk supply during autumn, eroded dairy fluid volumes during the last quarter – especially on UHT milk.

Additional distribution capacity created to date as part of Project Cielo Blu, enabled Clover to increase Principal distribution volumes and to take on additional Principals. Thus it secured the national sales, distribution and merchandising business of Epic Foods (Pty) Ltd with effect from 1 April 2012 on the following chilled brands:

- Blossom margarine and spreads.
- Canola spreads.
- Ole spreads.
- Cardin margarine.
- Maypole margarine.
- Spread and Bake margarine.

Subsequent to the year-end and with effect from 1 July 2012, Clover was awarded the sales, distribution and merchandising business of the Red Bull brand for the forecourt channel.

Financial highlights

	2012	2011	%
Revenue	**R7 223,9m**	R6 542,3m	10,4%
EBIT	**R371,2m**	R319,0m	16,4%
EBITDA	**R477,8m**	R419,0m	14,0%
Headline EBITDA	**R481,8m**	R415,0m	16,1%
Headline EBIT	**R375,1m**	R314,8m	19,2%
Normalised EBITDA	**R486,5m**	R428,7m	13,5%
Normalised EBIT	**R379,9m**	R328,6m	15,6%
Net finance cost	**R23,9m**	R37,4m	(36,1%)
Effective tax rate	**39,6%**	34,7%	14,1%
Headline earnings	**R207,8m**	R175,2m	18,6%
Headline earnings per share	**116,0c**	113,8c	1,9%
Diluted headline earnings per share	**108,7c**	106,2c	2,4%
Normalised earnings*	**R229,5m**	R187,4m	22,5%
Normalised earnings per share*	**128,1c**	121,8c	5,2%
Capital expenditure:			
• Project Cielo Blu	**R83,2m**	R79,8m	4,3%
• Recurring capital expenditure and other projects	**R190,5m**	R136,5m	39,6%
Return on equity	**11,3%**	12,9%	(10,9%)
Cash generated by operations	**R416,4m**	R256,9m	62,1%
Dividends relating to the financial year	**28,4c**	25,0c	13,6%

** See note 9 to the financial statements for the calculation of normalised earnings*

Comprehensive income

Headline earnings

Headline earnings improved by 18,6% to R207,8 million from R175,2 million in the prior year. A 16,4% increase in operating profit and a 36,3% reduction in net finance costs largely contributed to the increase in headline earnings. However, headline earnings per share only increased by 1,9% to 116,0c (2011: 113,8c) as a result of the greater number of shares in issue during the current year. Although the total number of shares at the end of both years was the same, on a weighted basis the shares issued in the JSE listing during the prior year were only in issue for a little more than six months.

Operating profit

Operating profit for the year under review increased by 16,4% to R371,2 million (2011: R319,0 million). This was achieved on revenue of R7 223,9 million (2011: R6 542,3 million), an increase of 10,4% over the comparative period. The gross margin increased to 27,6% from 26,6%, while the operating margin for the full year was 5,1% compared to 4,9% in the previous year.

Revenue from the sale of products increased by 10,9%, with 2,4% of this relating to volume growth and the rest being attributable to a combination of inflationary price increases and improved product mix. Revenue from rendering services increased by 18,9% or R121,6 million as a result of increased distribution capacity and consequent principal volume growth, together with the additional Epic Foods and Danone merchandising business. Revenue from the sale of raw milk to Danone Southern Africa (Pty) Ltd, which is made at cost, decreased by 10,3% due to greater direct raw milk purchases by Danone in the market.

Raw material costs increased by 10,2%, mostly as a result of the farm-gate milk price increases of more than 20% early in the second half of the year.

Packaging costs increased by 6,7%, slightly above inflation, because of the influence of higher oil prices on plastic packaging and to a lesser extent the effect of the weaker exchange rate on UHT packaging.

Despite the direct impact of higher fuel prices and staff costs on milk collection costs, the overall increase of only 5,3% was brought about by the increased UHT production capacity created in Port Elizabeth as part of Project Cielo Blu. Less raw milk was therefore transported to Gauteng, though the primary transport cost of finished product to Gauteng increased, albeit not to the same extent.

Higher staff costs and inflation in energy costs caused production costs to rise by 9,3%. Increased volumes put further upward pressure on overall production costs.

Primary distribution costs are heavily influenced by volume growth and fuel costs. The high volume growth in Principal distribution volumes and Clover's own volume growth and fuel cost increases, pushed the increase to 11,7% for the year. The move of UHT manufacturing capacity from Gauteng to the coastal areas also increased primary distribution volumes but this was more than offset by reduced raw milk transport volumes and milk collection costs.

High staff inflation, increased distribution volumes and higher fuel prices all contributed to the 14,4% increase in selling and distribution expenses. Clover's investment in the production of its Clover "Way Better™" advertising campaign, which was accounted for during this year also contributed to the increase in selling expenses. The benefits of this campaign will be experienced over the medium term.

Administrative expenses increased by 10,4% or R18,1 million. A departmental restructuring of a business unit from marketing to administration accounted for R4,9 million of this increase, with the remainder being attributable to inflation adjustments on annual staff costs.

The 2010/2011 restructuring expenses included a sum of R8,5 million associated with the listing on the JSE. This mainly accounted for the 43,4% decrease in restructuring expenses in the year under review.

Profit for the year

As is the case with headline earnings, the increase in operating profit and the reduced net interest charge increased profit for the year by 14,0% to R209,7 million (2011: R184,0 million). However, the effective tax rate of 39,6%, largely resulting from tax adjustments, eroded the earlier gains to some extent.

The effective tax rate is far higher than the official tax rate mainly for the following reasons:

Permanent differences:

- The preference dividends are not tax deductible, which increased the effective tax rate by 1,8%.
- The costs associated with the equity accounted share – based payments are not tax deductible, increasing the effective tax rate by 0,7%.
- A historical loan to Clover Zambia has been written off, increasing the effective tax rate by 0,4%.
- Depreciation on administrative buildings, non-deductible for tax purposes, which increased the effective tax rate by 0,5%.
- Deferred tax assets on losses in foreign subsidiaries not recognised, which increased the effective tax rate by 0,81%.

Other tax adjustments:

- 2009 tax deductions not allowed by SARS, which increased the effective tax rate by 0,3%.
- The reversal of a deferred tax asset raised in the prior year on the basis of a judgement handed down by the Supreme Court of Appeal (not related to Clover) during the current year, which increased the effective tax rate by 1,0%.
- The reversal of deferred tax assets on property plant and equipment raised in prior years, which increased the effective tax rate by 3,8%.

Return on equity weakened from 12,9% to 11,3% following from the equity raised halfway through the previous financial year with the listing on the JSE. This capital is earmarked for Project Cielo Blu that will only yield its full benefits during the next financial years. The increased equity without the immediate increase in returns caused the return on equity to weaken before it increases again.

Dividends

The Company declared and paid an interim dividend of 15 cents per share during April 2012. A final dividend of 13,4 cents was declared by the Board, which will bring the total annual dividend relating to the 2011/2012 financial year to 28,4 cents. This is 3,4 cents or 13,6% more than the dividend for the 2010/2011 financial year. Dividends are calculated in terms of the Company's dividend policy of 25% of total comprehensive income attributable to shareholders of the Company but excluding capital profits. In terms of the rules pertaining to the preference shares, this dividend policy may not be exceeded until after the redemption of the preference shares in June 2013. The Board will reconsider the dividend policy at the 2012/2013 year-end based on the Company's capital requirements.

Financial position

Significant movements from 30 June 2011 to 30 June 2012 on individual line items of the statement of financial position are explained below.

Non-current assets

The increase in property, plant and equipment stems mostly from the capital expenditure associated with Project Cielo Blu and other capital projects.

Intangible assets increased with R10,7 million, mainly as result of a new warehouse management system and a new call centre consumer line management system that were rolled out.

Current assets

Inventory levels increased sharply by 30,8%. This was the cumulative result of the farm-gate milk price increase of more than 20%, volume growth, imported UHT milk to facilitate the move of production facilities in terms of Project Cielo Blu and lower UHT sales volumes in the last quarter of the year after Clover's selling price increases.

Clover's volume growth and increased Principal volumes, together with the higher selling prices accounted for the 15,1% increase in trade and other receivables from 30 June 2011. Trade receivable days outstanding remained at very low levels. (Analysts should note that trade receivable days outstanding cannot be deduced from the financial statements as the full receivables of certain distribution Principals are included in trade receivables, while the revenue of such principals is not included in the statement of comprehensive income. Only fees earned from providing the services involved are included in revenue).

Cash decreased by R112,7 million to R711,5 million from R824,2 million at 30 June 2011. Spending on Project Cielo Blu and other capital projects together with the repayment of R155,0 million of long-term debt, utilised the cash as intended at the time of the listing on the JSE.

Non-controlling interests

The reduction of R7,7 million in non-controlling interests stems from the acquisition of the minority shareholdings in Clover Botswana and Clover West Africa.

Non-current liabilities

In terms of the Memorandum of Incorporation of the Company the preference shares will be redeemed during June 2013 and the full preference share debt of R259,4 million has accordingly been classified as a current liability in the 2012 statement of financial position. In addition, the last tranche of R150,0 million of the long-term debt securitised matures in March 2013 and has also been classified as a current liability. A decision on whether to renew this funding is pending, given the Group's current strong cash position. The senior funder of the debtors' securitisation transaction has already obtained credit approval and committed to renewing its funding, if required by Clover, at rates much lower than those currently applying.

Current liabilities

Trade and other payables increased by R248,0 million or 23,2%. Increased farm-gate milk prices, increased principal sales, creditors for capital projects and the year-end, which occurred over a weekend resulted in this above-normal increase. Principal sales are included in trade receivables, with a corresponding liability included in trade payables reflecting the amount payable to principals for their sales.

R155 million of the short-term portion of interest-bearing debt was repaid during December 2011. Together with the reclassification of the preference share debt of R259,4 million and the R150 million of long-term debt to short-term debt, as explained above, it increased the short-term portion of interest bearing debt by R247,6 million to R421,4 million.

Gearing

Gearing at 30 June 2012 was 23,4% (2011: 34,6%). Net of cash, the Group was negatively geared at 14,2% (2011: 12,4%). Group gearing is currently conservative and well within its ability to service interest and repayments.

Cash flow

The reclassification of the preference share debt and the last remaining tranche of the debtors securitisation funding as current liabilities reduced Group liquidity with net current assets decreasing from R927,9 million to R576,4 million. Excluding inventory, net current assets decreased from R467,7 million to a net current liability position of R25,6 million. Cash generation from operations over the next year is expected to be sufficient to maintain a healthy liquidity position.

Cash generated from operations, before working capital changes, is R444,6 million compared to R379,5 million reported in the prior year. During the year under review, working capital absorbed cash in the sum of R28,2 million. The reasons for the working capital changes are discussed under current assets and liabilities above.

Investment activities consumed R256,2 million in cash. Capital expenditure on project Cielo Blu amounted to R83,2 million and capital expenditure of a recurring nature and other capital projects amounted to R190,5 million. R27,2 million was utilised to acquire the minority interests and associated goodwill in Clover Botswana and Clover West Africa.

Finance costs, dividends and debt reduction absorbed cash of R273,0 million of which the bulk relates to the settlement of R155 million of long-term debt during December 2011.

The Group ended with a net decrease in its cash position for the year of R112,7 million.

Segmental performance

The segmental information is only disclosed to margin on materials ("MOM") level as the Group's assets and operations are largely integrated between segments making the allocation of overhead costs to the different segments impracticable. Overheads are managed at Group level. MOM refers revenue less raw material, ingredients and packaging costs.

Dairy Fluids' external revenue, excluding raw milk sales, increased by 4,5% on volume growth of 2,6%. The MOM % weakened from 41,5% to 39,6%. Selling price increases were insufficient to recover the increase in raw material costs, and in particular the increase in raw milk prices during the second half of the year, to maintain the MOM%. A higher than normal national autumn and early winter milk supply constrained attempts to increase selling prices further, which would have risked volume losses. MOM, as a result, decreased to R1 225,3 million or 0,2%.

The Concentrated Dairy Products segment consists of cheese, butter, condensed milk and retail powders. Volumes increased by 0,1% and external revenue by 10,7%. The volume of the bulk commodity product component further reduced by 19,5% in line with the Group's strategy. The branded component volume, however, increased by 15,6%. The improved mix and the higher selling prices increased the MOM% to 29,5% from 24,3%. MOM increased to R300,8 million or 34,2%.

International dairy ingredient prices weakened substantially during the second half of the year, affecting the volumes of milk powder sales due to the availability of cheaper imported product. Ingredient volumes consequently decreased by 13,1%, albeit from an already low base in line with the Group's strategy. A much higher butter component, however, caused revenue to increase by 29,0% and the MOM% to only reduce slightly from 21,5% to 19,6%. MOM increased by 17,5% to R83,9 million.

The Beverages segment performed very well, with sales volumes increasing by 8,6% and revenue by 21,0%. The MOM% increased to 51,7% from 51,0% and MOM by 22,7% to R805,6 million. This resulted from the higher selling prices and tight control over raw material costs.

Jacques Botha
Chief Financial Officer

Summarised results for the year	2012 Rm	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 Rm
Revenue	**7 223,9**	6 542,3	@ 6 161,5	+ 5 475,8	5 718,3	4 712,5
Revenue Danone Clover	**–**	–	–	–	682,7	521,6
Revenue Excluding Danone Clover	**7 223,9**	6 542,3	6 161,5	5 475,8	5 035,6	4 190,9
Operating profit	**371,2**	319,0	*** 559,0	** 664,3	297,2	* 357,0
Net financing cost						
Current and non–current liabilities	**(1,8)**	(16,1)	(41,2)	(103,5)	(90,7)	(53,7)
Debt portion of preference share capital	**(22,0)**	(21,4)	(22,3)	(32,2)	(30,4)	(22,0)
Profit/(loss) before tax from continuing operations	**347,4**	281,5	495,5	528,6	176,1	281,3
Taxes	**(137,7)**	(97,5)	(191,7)	(29,2)	(50,5)	(72,7)
Profit after tax from discontinued operations	**–**	–	32,1	39,6	–	–
Non–controlling interest	**(4,4)**	(4,4)	(5,1)	(11,7)	(5,7)	(41,5)
Profit/(loss) attributable to equity holders of the parent	**205,3**	179,6	*** 330,8	** 527,3	119,9	* 167,1
Headline earnings attributable to equity holders of the parent company	**207,8**	175,2	19,0	(104,3)	116,3	59,9
Normalised earnigs	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**
Operating profit	**371,2**	319,0	559,0	664,3	297,2	357,0
Adjusted for exceptional items:						
(Profit)/loss on sale and scrapping of property, plant and equipment	**(0,9)**	(7,3)	0,9	(3,8)	(5,1)	5,5
Profit on the sale of Boksburg factory	–	–	(50,8)	–	–	–
Profit on sale of Ultra Mel Custard business	–	–	–	–	–	(111,1)
Profit on deconsolidation of Danone Clover	–	–	–	(637,5)	–	–
Profit on sale of Danone Clover	–	–	(337,7)	–	–	–
Retrenchment costs	**3,6**	6,6	84,9	17,2	10,4	14,2
Option fee paid to HCI on capital restructuring	–	–	11,4	–	–	–
Legal and professional services costs associated with the listing	**–**	8,5	–	–	–	–
Legal and professional services costs associated with the capital restructuring	**–**	–	5,3	–	–	–
SAR bonuses paid to Executives on capital restructuring	**–**	–	37,1	–	–	–
Other restructuring cost	**6,0**	1,8	10,7	8,4	1,1	1,6
Normalised Operating Profit	**379,9**	328,6	320,8	48,6	303,6	267,2

@ During the first six months of the 2010 financial year raw milk sales to Danone Clover, an associated company at the time, were set off against cost of sales. To facilitate comparability to the current year that period's sales are now shown as revenue and the cost of sales and revenue figures were regrouped accordingly. It has no effect on profits.

+ Following the sale of the Group's interest in Danone Clover, the Group's share of Danone Clover's income was classified as income from discontinued operations. The 2009 comparative figures were restated accordingly.

** Includes R111 million profit (R103 million after tax) on sale of the Ultra Mel Custard business.*

*** Includes R637,5 million (R599,5 million after tax) profit on deconsolidiation of Danone Clover.*

**** Includes R337,7 million (R227,1 million after tax) profit on sale of Danone Clover.*

6-Year financial review

Normalised earnings	2012 Rm	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 Rm
Net financing cost	**(23,9)**	(37,4)	(63,5)	(135,7)	(121,1)	(75,8)
Tax expense						
Total tax expense	**(137,7)**	(97,5)	(191,7)	(29,2)	(50,5)	(72,7)
STC paid on capital restructuring			52,2	–	–	–
Taxation adjustment on exceptional items	**(2,6)**	(1,9)	69,8	33,1	(2,6)	1,4
Other non-recurring tax adjustments	**18,3**					
Non-controlling interest	**(4,4)**	(4,4)	(5,1)	(11,7)	(5,7)	(41,5)
Normalised profit attributable to equity holders of the parent	**229,5**	187,4	182,5	(94,9)	123,7	78,6
Dividends						
Equity dividends – ordinary shares	**53,7**	58,7	–	1,0	0,6	0,3
Equity dividends – preference shares	**–**	–	370,0	29,0	17,8	9,2
Preference dividends recognised as interest	**22,0**	21,4	22,3	32,2	30,4	22,0
Earnings and dividends per share	**Cents**	**Cents**	**Cents**	**Cents**	**Cents**	**Cents**
Equity dividends per ordinary share	**30,0**	43,0	–	1,1	0,7	0,4
Equity dividends per preference share	**–**	–	–	33,5	20,5	10,7
Special dividend on the buy–back of equity rights of preference shares per preference share	**–**	–	413,7	–	–	–
Preference dividend recognised as interest per preference share	**24,6**	23,9	24,9	37,3	35,2	25,5
Earnings per ordinary share	**114,6**	116,7	**214,0	***22,3	***5,2	***8,3
Diluted earnings per ordinary share	**107,4**	108,9	**214,0	***22,3	*** 5,2	***7,1
Headline earnings per ordinary share	**116,0**	113,8	**33,1	***(82,2)	***150,2	***89,2
Diluted headline earnings per ordinary share	**108,7**	106,2	**33,1	***(82,2)	***150,2	***89,2
Normalised earnings/(loss) per share, calculated by dividing the normalised profit/(loss) by the weighted average number of ordinary shares net of treasury shares	**128,1**	121,8	*118,1	*(120,6)	*159,9	*117,1
Summarised statement of financial position	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**
Non–current assets	**1 526,3**	1 361,4	1 202,5	1 823,7	1 361,3	1 206,0
Deferred taxation asset	**0,5**	3,2	18,7	110,4	104,8	71,1
Current assets	**2 336,7**	2 180,9	1 710,9	1 651,4	1 908,1	1 249,4
Total assets	**3 863,5**	3 545,5	2 932,1	3 585,5	3 374,2	2 526,5
Shareholders' funds	**1 894,2**	1 742,4	1 048,4	1 440,1	938,6	829,0
Non–controlling Interest	**1,8**	9,4	28,1	40,9	48,3	28,5
Non–current portion of interest–bearing borrowings	**21,7**	432,8	592,5	761,4	657,0	566,9
Non–current portion of provisions	**61,6**	62,5	50,4	60,5	62,9	64,0
Non–current portion of other payables	**6,9**	13,4	6,3	–	–	–
Deferred taxation liability	**117,0**	32,0	6,4	6,3	28,6	15,4
Current portion of interest–bearing borrowings	**421,4**	173,8	66,9	234,8	517,6	135,4
Current liabilities	**1 338,9**	1 079,2	1 133,1	1 041,5	1 121,2	887,3
Total equity and liabilities	**3 863,5**	3 545,5	2 932,1	3 585,5	3 374,2	2 526,5

** The earnings/(loss) per share from continuing operations adjusted for exceptional items for years 2007 to 2010 are presented for illustrative purposes only to indicate what the earnings per share would have been if ordinary shareholders had been entitled to all equity earnings and if the 2 for 1 share split (4 November 2010) is taken into consideration.*
*** Earnings per share for the 2010 financial year has been recalculated to account for the 2 for 1 share split.*
****Earnings per share has not been adjusted for the 2 for 1 share split as at 4 November 2010.*

A list of all definitions used in the above calculation is set out in note 3 on pages 132 and 133.

	2012 Rm	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 Rm
Net assets	**1 896,0**	1 751,8	1 076,5	1 481,0	986,9	857,5
Replacement value of property, plant and machinery[@]	**5 746,8**	5 445,7	5 112,8	4 927,0	4 521,6	4 383,2
Number of shares in issue	**'000**	'000	'000	'000	'000	'000
Number of ordinary shares in issue at year–end	**179 111,9**	179 111,9	#123 850,0	88 485,3	88 485,3	76 907,8
Weighted average number of ordinary shares net of treasury shares	**179 111,9**	153 882,4	#154 595,4	78 711,5	77 411,0	67 134,0
Number of preference shares in issue at year–end	**89 442,0**	89 442,0	89 442,0	86 492,6	86 492,6	86 492,6
Weighted average number of preference shares net of treasury shares	**89 442,0**	89 442,0	87 516,2	85 442,0	85 517,0	83 888,6
Weighted average number of ordinary shares for calculation of diluted earnings	**191 127,2**	164 890,5	#154 595,4	78 711,5	77 411,0	78 711,5
Cash flow	**Rm**	Rm	Rm	Rm	Rm	Rm
Cash flow from/(used in) operating activities	**416,4**	256,9	347,1	79,7	(113,5)	186,3
Cash flow (used in)/from investment activities	**(256,2)**	(253,3)	1 005,1	(186,4)	(213,1)	(311,9)
Net cash inflow/(outflow) before financing activities	**160,2**	3,6	1 352,2	(106,7)	(326,6)	(125,5)
Cash generated from/(utilised in) operating activities per share (cents)	**234.0**	167.0	#224,5	101,3	(146,6)	277,7
Ratios and returns	**%**	%	%	%	%	%
Operating profit to revenue	**5,1**	4,9	*** 9,1	** 12,1	5,2	* 7,6
Normalised operating profit	**5,3**	5,0	5,2	1,0	5,3	5,7
Return on net assets	**14,9**	15,0	*** 25,7	** 27,7	15,3	* 23,6
Return on net assets excluding exceptional items	**15,2**	15,4	14,8	2,0	15,6	17,7
Return on equity holders' funds	**11,3**	12,9	*** 26,6	** 44,3	13,6	* 22,9
Return on equity holders' funds excluding exceptional items	**12,6**	13,7	15,1	(7,0)	14,6	16,5
Gearing percentage	**(14,2)**	(12,4)	21,4	48,8	67,9	43,1
Effective tax rate	**39,6**	34,7	38,7	5,5	28,7	25,9
	Times	Times	Times	Times	Times	Times
Net asset turn	**6,8**	8,3	6,5	6,5	10,9	10,5
Current ratio	**1,3**	1,7	1,4	1,3	1,2	1,2
Employee statistics	**Number**	Number	Number	Number	Number	Number
Average number of permanent employees	**6 555**	6 353	6 362	6 579	6 662	6 776
	R'000	R'000	R'000	R'000	R'000	R'000
Revenue per employee	**1 102,0**	1 029,8	*** 942,4	** 832,3	858,3	* 695,5
Operating profit per employee	**56,6**	50,2	*** 87,9	** 101,0	44,6	* 52,7
Normalised operating profit	**58,0**	51,7	50,4	7,4	45,6	39,4
Net assets per employee	**278,2**	222,6	201,0	187,6	138,4	114,1

@ Replacement value of property, plant and machinery is determined by an external valuator.
 # The number of ordinary shares have been adjusted for the 2 for 1 share split (4 November 2010).
** Includes R111 million profit (R103 million after tax) on sale of the Ultra Mel Custard business.*
*** Includes R637,5 million (R599,5 million after tax) profit on deconsolidiation of Danone Clover.*
**** Includes R337,7 million (R227,1 million after tax) profit on sale of associate Danone Clover.*

A list of all definitions used in the above calculation is set out in note 3 on page 132 and 133.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