CLOVER'S HALF YEAR RESULTS REFLECT CONSTRAINED TRADING ENVIRONMENT

- **Revenue up 2% to R5,1 billion**
- **Operating profit under pressure due to prolonged drought, rand volatility and overall weak consumer sentiment**
- **Selling prices increased substantially in light of above inflation input costs**
- **Festive season sales impacted by comparatively wetter and cooler summer**
- **Significant investments made in infrastructure, research and development as well as marketing**
- **24,2 cents per share interim script distribution with cash alternative declared**

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01 March 2017 – Clover Industries Limited ("Clover", "the Group" or "the Company"), a leading branded consumer goods and beverages group operating in South Africa and other selected African countries, today announced muted financial results for the half year ended 31 December 2016, impacted by a particularly challenging trading environment.

Commenting on the performance, Johann Vorster, Clover Chief Executive, said:

"We had to contend with a number of complex challenges during the period. The prolonged drought and rand volatility resulted in above inflation input costs which could not be recovered through price increases as consumer sentiment was subdued and competitive pricing aggressive. We also experienced a comparatively wetter and cooler summer which impacted sales volume growth.

"Aligned with our strategy to expand our value added portfolio and in order to support future cost efficiencies and increased sales, we made significant investments into our production facilities, distribution platform, research and development as well as marketing during the reporting period.

"We are confident that the benefits of these investments will create a platform for adjacent plays and future growth."

The raw milk supply was volatile during the reporting period which followed the prolonged drought. Seasonal peak milk production commenced in August 2016 with high feed costs putting downwards pressure on milk production whilst industry selling prices remained relatively low. As a result, Clover passed price increases on to producers to protect the primary industry. SA milk production during December 2016 is estimated to have been 0,9% higher than during December 2015 while total production during 2016 is estimated to have been 1,4% lower than the prior year.

Although Clover's Unique Milk Procurement System (CUMPS) maintained a balance between the Company's milk intake and market demand, the Group was impacted by aggressive competitor pricing for dairy products which placed Clover's volumes under pressure and increased inventory levels.

In addition to higher raw milk costs, packaging costs increased on the back of the weaker rand at the beginning of the reporting period while a sharp increase in ingredient costs driven by sugar costs and a shortage of fruit pulp concentrates further placed pressure on the Group.

To recover these high inflationary input costs, Clover increased its selling prices in most categories. The combined effect of higher selling prices, subdued consumer sentiment and a comparatively wetter and cooler summer impacted overall sales volumes and market shares in certain categories.

However, Clover did increase sales of new products and stringent supply chain cost savings largely mitigated an overall decline in principal income.

Revenue increased 2% from the previous corresponding period to R5,1 billion due to higher product selling prices which saw inflation of 10,6% for the reporting period.

Selling and distribution costs increased 7,1% to R69,8 million due to the additional facility costs linked to new additions to the distribution platform and marketing costs linked to the launch of new products. Significant once-off restructuring costs of R23,6 million were incurred for the integration of the City Deep distribution facility into the Clayville distribution facility. The Board remains confident that the long-term benefits of the City Deep integration and new launches will accrue in the second half of the financial year and beyond.

Clover invested significantly behind its focus on new brands and new market development with research and development receiving a 20% increase to R29,2 million.

Clover also invested R177 million more in capital expenditure projects, including the integration of the Doornkloof Ice Tea and Water facility (R53 million), the optimisation and expansion of the Port Elizabeth UHT facility (R42 million) and extension of its yoghurt production capacity in Bloemfontein (R24 million).

"The exploration of adjacent revenue streams is a key focus area along with further investment in research and development of new differentiating products which may be implemented in-house or in collaboration with industry counterparts.

"Despite the difficult operating environment, Clover remains committed to our medium to long term goals of investing in and growing our value added product portfolio and infrastructure," added Vorster.

The Group's gross margin was slightly higher at 30% but the inflationary cost pressures and internal restructuring impacted the Group's operating margin which decreased to 6,2% from 6,8% in the corresponding period. Accordingly, operating profit was 5,2% lower at R322,7 million with headline earnings per share (HEPS) declining 14,7% to 99,8 cents for the reporting period.

Commenting on the next six months, Vorster said:

"The weakened economy will continue to take its toll on consumers whilst we address the challenges of above inflationary cost increases.

"We are acutely aware of the plight of the consumer and remain focused on seeking cost efficiencies and more affordable products across our value chain as this will limit the impact of rising selling prices and defend our market shares.

"We believe that structural changes are required as the secondary industry is far too fragmented. We will continue to explore opportunities where synergies can be leveraged using our infrastructure. This should lead to significant cost savings which can be passed on to the consumer."

Clover is in the process of restructuring its current operations to give effect to its stated objective of developing higher margin, value added products in dairy and other related food categories and to eliminate its exposure to the cyclicality of its low margin business in future.

The restructure will effectively result in the Group rearranging its business in a way that will see Clover continue its strategy of focusing on branded products whilst simultaneously supporting the ambitions of its milk producers to pursue a volume growth strategy through a newly formed entity, Dairy Farmers of South Africa Proprietary Limited that will acquire the dairy fluid business.

"We are still in the process of formalising the restructuring which is planned for implementation on 1 July 2017. This restructuring is an exciting and new concept which offers a number of opportunities for Clover and for our milk producers", Vorster concluded.

Ends.

NOTE TO EDITORS:

New product launches and/or acquisitions:

May 2016

- Clover Good Hope - Producer of soy-based products and long-life fruit juices that exports to over 40 countries

June 2016

- Clover Sip Up, 250g, 850g & 4pk – Yoghurt-based dairy snack

September 2016

- Clover Care, Fresh and UHT – SA's first enriched milk containing nutrients lacking in the SA diet

- Clover NoLac, Fresh and UHT – Lactose free milk high in calcium and vitamin D

- Clover Slice O'Nice

- Clover White Cheddar, 240g and 450g

October 2016

- Nutrikids Range – Range of products for toddlers that is enriched with essential nutrients

- Clover Krush UHT

February 2017

- Tropika Slenda - Reduced calorie and no added sugar version of Tropika

March 2017

- Clover Pride - a leading manufacturer and importer of olive oils, extra virgin olive oils, balsamic vinegars and related products

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