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# ARL – Astral Foods Limited – Unaudited interim results and dividend

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declaration

for the six months ended 31 March 2012

Astral Foods Limited

Incorporated in the Republic of South Africa

Registration number 1978/003194/06

Share code: ARL ISIN: ZAE000029757

Unaudited interim results and dividend declaration

for the six months ended 31 March 2012

– Revenue increase 16%

– Operating profit decrease 14%

– Earnings per share decrease 17%

– Interim dividend 336 cents per share

Condensed group statement of financial position

| | Unaudited | Unaudited | Audited |
|---|---|---|---|
| | six months | six months | 12 months |
| | ended | ended | ended |
| | 31 March 2012 | 31 March 2011 | 30 Sept 2011 |
| | R`000 | R`000 | R`000 |
| ASSETS | | | |
| Non-current assets | 1 773 066 | 1 784 969 | 1 876 789 |
| Property, plant and | 1 615 939 | 1 646 487 | 1 711 966 |

| | | | |
|---|---|---|---|
| equipment | | | |
| Intangible assets | 11 333 | 4 562 | 11 120 |
| Goodwill | 139 147 | 124 802 | 140 401 |
| Investments and loans | 6 647 | 9 118 | 13 028 |
| Deferred tax assets | – | – | 274 |
| Current assets | 1 615 358 | 1 502 994 | 1 508 605 |
| Inventories | 424 352 | 291 574 | 321 031 |
| Biological assets | 362 156 | 316 584 | 342 234 |
| Trade and other receivables | 743 563 | 715 094 | 662 836 |
| Current tax asset | – | – | 429 |
| Derivative financial instruments | 291 | 385 | 210 |
| Cash and cash equivalents | 84 996 | 179 357 | 181 865 |
| Assets of disposal group classified as held for sale | 156 842 | – | – |
| Total assets | 3 545 266 | 3 287 963 | 3 385 394 |
| EQUITY | | | |
| Capital and reserves attributable to equity holders of the parent company | 1 576 583 | 1 491 307 | 1 574 194 |
| Issued capital | 2 044 | 2 321 | 2 044 |
| Treasury shares | (204 435) | (204 435) | (204 435) |
| Reserves | 1 778 974 | 1 693 421 | 1 776 585 |
| Non-controlling interest | 11 421 | 24 626 | 11 438 |
| Total equity | 1 588 004 | 1 515 933 | 1 585 632 |
| LIABILITIES | | | |
| Non-current liabilities | 495 473 | 564 517 | 569 100 |
| Borrowings | 19 045 | 103 999 | 99 496 |
| Deferred tax liability | 381 863 | 370 343 | 378 950 |
| Retirement benefit obligations | 94 565 | 90 175 | 90 654 |
| Current liabilities | 1 364 943 | 1 207 513 | 1 230 662 |
| Trade and other liabilities | 1 227 509 | 1 031 235 | 1 101 455 |
| Current tax liabilities | 5 287 | 50 586 | 7 316 |
| Borrowings | 132 147 | 125 692 | 121 891 |
| Liabilities of disposal group classified as held | 96 846 | – | – |

| | | | | |
|---|---|---|---|---|
| for sale | | | | |
| Total liabilities | 1 957 262 | 1 772 030 | | 1 799 762 |
| Total equity and liabilities | 3 545 266 | 3 287 963 | | 3 385 394 |

Condensed group statement of comprehensive income

| | Unaudited six months ended 31 March 2012 | Unaudited six months ended 31 March 2011 | Change | Audited 12 months ended 30 Sept 2011 |
|---|---|---|---|---|
| | R`000 | R`000 | % | R`000 |
| Revenue | 4 885 288 | 4 214 698 | 16 | 8 605 904 |
| Operating profit | 323 541 | 375 355 | (14) | 674 919 |
| Fair value adjustment of investment in assets held for sale | – | (1 805) | | (1 805) |
| Finance income | 3 070 | 5 354 | | 12 676 |
| Finance costs | (11 387) | (14 670) | | (27 849) |
| Profit before income tax | 315 224 | 364 234 | (13) | 657 941 |
| Income tax expense | (113 975) | (122 036) | | (222 679) |
| Profit for the period | 201 249 | 242 198 | (17) | 435 262 |
| Other comprehensive income | | | | |
| Foreign currency translation adjustments | (5 663) | 2 816 | | 13 555 |
| Total comprehensive income for period, net of tax | 195 586 | 245 014 | (20) | 448 817 |
| Profit attributable to: | | | | |
| Equity holders of the parent company | 199 245 | 240 103 | (17) | 429 217 |
| Minority interests | 2 004 | 2 095 | (4) | 6 045 |
| | 201 249 | 242 198 | (17) | 435 262 |
| Comprehensive income attributable to: | | | | |
| Equity holders of the | 193 733 | 242 494 | (20) | 441 278 |

| | | | | |
|---|---|---|---|---|
| parent company | | | | |
| Minority interests | 1 853 | 2 520 | (26) | 7 539 |
| | 195 586 | 245 014 | (20) | 448 817 |
| Earnings per share (cents) | | | | |
| – basic | 523 | 631 | (17) | 1 128 |
| – diluted | 523 | 630 | (17) | 1 126 |

Condensed group statement of cash flow

| | Unaudited six months ended 31 March 2012 R`000 | Unaudited six months ended 31 March 2011 R`000 | Audited 12 months ended 30 Sept 2011 R`000 |
|---|---|---|---|
| Cash operating profit | 388 565 | 440 705 | 809 169 |
| Working capital changes | (86 067) | (37 921) | 27 782 |
| Cash generated from operating activities | 302 498 | 402 784 | 836 951 |
| Tax paid | (111 196) | (74 583) | (214 564) |
| Cash flows from operating activities | 191 302 | 328 201 | 622 387 |
| Net cash used in investing activities | (81 157) | (58 897) | (193 261) |
| Capital expenditure | (85 780) | (78 179) | (147 556) |
| Finance income | 3 070 | 5 354 | 12 676 |
| Proceeds on disposal of property, plant and equipment | 1 553 | 13 928 | 9 945 |
| Acquisition of business unit | – | – | (82 261) |
| Proceeds on disposal of investment held for sale | – | – | 13 935 |
| Cash generated for the period | 110 145 | 269 304 | 429 126 |
| Cash used in financing activities | (212 365) | (184 697) | (337 654) |
| (Decrease)/Increase | (5 808) | 7 347 | 5 021 |

| | | | |
|---|---|---|---|
| in borrowings | | | |
| Interest paid | (12 623) | (14 670) | (31 021) |
| Dividends paid | (193 934) | (178 683) | (298 962) |
| Cost of non-controlling interest acquired | – | – | (14 000) |
| Shares issued | – | 1 309 | 1 308 |
| Net movement in cash and cash equivalents | (102 220) | 84 607 | 91 472 |
| Effects of exchange rate changes | 1 928 | 1 379 | 6 938 |
| Reclassification to assets held for sale | (12 839) | – | – |
| Cash and cash equivalent balances at beginning of period | 69 416 | (28 994) | (28 994) |
| Cash and cash equivalent balances at end of period (note 6) | (43 715) | 56 992 | 69 416 |

Condensed group statement of changes in equity

| | Unaudited six months ended 31 March 2012 R`000 | Unaudited six months ended 31 March 2011 R`000 | Audited 12 months ended 30 Sept 2011 R`000 |
|---|---|---|---|
| Balance beginning of period | 1 585 632 | 1 446 197 | 1 446 197 |
| Total comprehensive income for period | 195 586 | 245 014 | 448 817 |
| Dividends to the company`s shareholders | (192 205) | (178 825) | (294 909) |
| Payments to non-controlling interest holders | (1 869) | – | (4 571) |

| | | | |
|---|---|---|---|
| Option value of share options granted | 860 | 1 648 | 2 790 |
| Shares issued from share options exercised | – | 1 309 | 1 308 |
| Cost of non-controlling interest acquired | – | 590 | (14 000) |
| Balance at end of period | 1 588 004 | 1 515 933 | 1 585 632 |

Condensed group segmental analysis

| | Unaudited six months ended 31 March 2012 R`000 | Unaudited six months ended 31 March 2011 R`000 | Change % | Audited 12 months ended 30 Sept 2011 R`000 |
|---|---|---|---|---|
| Revenue | | | | |
| Poultry | | | | |
| – South Africa and Swaziland | 3 101 529 | 2 771 716 | 12 | 5 599 160 |
| Feed | 2 588 888 | 2 052 909 | 26 | 4 210 296 |
| – South Africa | 2 468 605 | 1 956 925 | 26 | 4 004 451 |
| – Other Africa | 120 283 | 95 984 | 25 | 205 845 |
| Services and ventures | 155 127 | 132 236 | 17 | 275 902 |
| Inter-group | (960 256) | (742 163) | | (1 479 454) |
| – Feed to Poultry | (912 160) | (703 573) | | (1 395 071) |
| – Services and ventures to Poultry and Feed | (48 096) | (38 590) | | (84 383) |
| | 4 885 288 | 4 214 698 | 16 | 8 605 904 |
| Operating profit | | | | |
| Poultry | | | | |
| – South Africa and Swaziland | 144 188 | 228 904 | (37) | 353 193 |
| Feed | 166 261 | 133 048 | 25 | 282 329 |
| – South Africa | 151 069 | 120 603 | 25 | 257 536 |
| – Other Africa | 15 192 | 12 445 | 22 | 24 793 |
| Services and ventures | 13 092 | 13 403 | (2) | 39 397 |

| | | | | |
|---|---|---|---|---|
| | 323 541 | 375 355 | (14) | 674 919 |

Additional information

| | Unaudited six months ended 31 March 2012 | Unaudited six months ended 31 March 2011 | Change | Audited 12 months ended 30 Sept 2011 |
|---|---|---|---|---|
| | R`000 | R`000 | % | R`000 |
| Headline earnings (R`000) (note 5) | 198 739 | 241 886 | (18) | 436 697 |
| Headline earnings per share (cents) | | | | |
| – basic | 522 | 636 | (18) | 1 148 |
| – diluted | 521 | 635 | (18) | 1 145 |
| Dividends per share (cents) | 336 | 305 | 10 | 810 |
| Number of ordinary shares | | | | |
| – Issued net of treasury shares | 38 060 308 | 38 060 308 | | 38 060 308 |
| – Weighted-average | 38 060 308 | 38 050 557 | | 38 055 446 |
| – Diluted weighted-average | 38 111 641 | 38 096 186 | | 38 124 355 |
| Net debt (borrowings less cash and cash equivalents) (R`000) | 66 196 | 50 334 | | 39 522 |
| Net asset value per share (Rand) | 41,42 | 39,18 | 6 | 41,36 |

Notes

1. Nature of business

Astral is a leading South African integrated poultry producer. Key activities consist of: broiler genetics, production and sale of day-old chicks and hatching eggs, integrated breeder and broiler production operations, abattoirs and sale and distribution of various key poultry brands as well as animal feed pre-mixes and the manufacturing of animal feeds.

2. Basis of preparation

The condensed interim financial statements for the six months ended 31 March 2012 have been prepared in accordance with International Reporting Standards

('IFRS'), IAS 34 – Interim Financial Reporting, the Listings Requirements of the JSE Limited and the South African Companies Act (2008). These condensed interim financial statements have been prepared by the financial director, DD Ferreira, CA(SA).

These financial statements have not been reviewed or audited by the group`s auditors.

3. Accounting policies

The accounting policies applied in this interim financial statements comply with IFRS and IAS 34 and are consistent with those applied in the preparation of the group`s annual financial statements for the year ended 30 September 2011.

| | Unaudited | Unaudited | Audited |
|---|---|---|---|
| | six months | six months | 12 months |
| | ended | ended | ended |
| | 31 March 2012 | 31 March 2011 | 30 Sept 2011 |
| | R`000 | R`000 | R`000 |
| 4. Operating profit | | | |
| The following items have been accounted for in the operating profit: | | | |
| Biological assets – fair value gain | 1 673 | 410 | 2 620 |
| Amortisation of intangible assets | 1 208 | 1 403 | 2 679 |
| Depreciation on property, plant and equipment | 59 380 | 56 799 | 115 251 |
| Profit/(Loss) on disposal of property, plant and equipment | 703 | 31 | (6 338) |
| Foreign exchange (loss)/profit | (830) | 187 | 1 214 |
| Provision for Competition Commission settlement | 17 000 | – | – |
| 5. Reconciliation to headline earnings | | | |
| Earnings for period | 199 245 | 240 103 | 429 217 |
| (Profit)/Loss on sale of property, plant and equipment | (506) | (22) | 4 392 |

| | | | |
|---|---|---|---|
| – net of tax | | | |
| Loss on disposal of investment held for sale | – | 1 805 | 1 805 |
| Loss on assets scrapped – net of tax | – | – | 132 |
| Impairment of assets – net of tax | – | – | 1 151 |
| Headline earnings for period | 198 739 | 241 886 | 436 697 |

6. Cash and cash equivalents per cash flow statement

| | | | |
|---|---|---|---|
| Bank overdrafts – included in current borrowings | (128 711) | (122 365) | (112 449) |
| Cash at bank and in hand | 84 996 | 179 357 | 181 865 |
| Cash and cash equivalents per cash flow statement | (43 715) | 56 992 | 69 416 |

7. Capital commitments

| | | | |
|---|---|---|---|
| Capital expenditure approved not contracted | 340 306 | 131 739 | 142 769 |
| Capital expenditure contracted not recognised in financial statements | 33 662 | 24 909 | 27,542 |

8. Disposal group classified as held for sale

The assets and liabilities of East Balt, a 50% owned joint venture disclosed as part of the Services and Ventures segment, have been presented as held for sale following a decision to divest from the business.

Financial overview

Headline earnings for the period decreased by 18% to R199 million from R242 million for the same period last year mainly as result of increases in feed and other input costs not all recovered in selling price increases.

Revenue increased by 16% from R4 215 million to R4 885 million due to increased volumes and higher sales realisations from all the business segments.

Operating profit at R324 million was 14% down on the profit for the same period last year. The high increase in feed costs experienced during the past six months impact negatively on the Poultry division`s profit margins, resulting in a 37% decline in operating profit. Poultry`s operating profit also includes a provision of R17 million in respect of a proposed settlement of anti-competitive and alleged anti-competitive conduct by Astral. The Feed division on the other hand maintained its profit margin and reported a 25% increase in profits, in line with the higher revenue realised. The Other Africa operations reported increased profits and the Service and Ventures` profits were the same as the previous year.

Net finance costs at R8 million were marginally down on the previous year`s R9 million.

Earnings per share decreased by 17% from 631 cents to 523 cents, and headline earnings per share decreased by 18% from 636 cents to 522 cents.

Negative cash flow for the period, partly as result of the increase in working capital, resulted in a negative cash and cash equivalent balance of R44 million, compared to the surplus of R69 million at 30 September 2011. The net debt level of R66 million (30 September 2011: R39 million) excludes R80 million in respect of East Balt`s borrowings which is now disclosed as part of liabilities held for sale. The net debt to equity ratio remained low at 4% (30 September 2011: 3%).

The board has declared an interim dividend of 336 cents per share (2011: 305 cents per share). The dividend includes 31 cents per share to partially compensate for the portion of newly introduced Dividend Tax, which replaced the Secondary Tax on Companies (STC) previously part of the group`s tax charge.

Operational overview

Poultry division

Revenue for the division was up by 12% to R3 102 million (30 September 2011: R2 772 million) on the back of higher volumes (up 5%) and pricing levels improving by 7%.

The higher volumes were as a result of an increase in the number of broilers placed and reared during the period under review.

An increase in feed costs for the period (up 23%) impacted negatively on margins for the division which reflected a decrease to 4,7% (30 September 2011: 8,3%) with operating profit decreasing by 37% to R144 million (30 September 2011: R229 million).

Poultry imports, primarily from Europe and Brazil, continued to climb to record levels resulting in pricing pressure on locally produced poultry which, in turn, led to a significant increase in promotional activity during the second quarter in order to manage higher stock levels.  The above resulted in the inability to recover significant increases in feed and other input costs, such as energy in the selling price of chicken, leading to substantial margin pressure in the Poultry division.

Feed division

Revenue for the division increased by 26% to R2 589 million (30 September 2011: R2 053 million) as a result of higher feed prices on the back of higher maize and soya pricing levels, and higher sales volumes (up 3%) derived mainly from an increase in the inter-group requirement for poultry feed.

The operating profit increased by 25% to R166 million (30 September 2011: R133 million) with a stable margin at 6,4% (30 September 2011: 6,5%). The increase in the operating profit was mainly due to an increase in the net Rand per ton margins on feed.

The division`s other Africa operations reported a healthy 22% increase in operating profit.

Services and Joint Ventures

Revenue for the division increased by 17% to R155 million ((30 September 2011: R132 million) whilst operating profit decreased marginally to R13 million ((30 September 2011: R13,4 million).

Competition Commission

The group`s financial results were impacted by a provision of R17 million in respect of a proposed settlement with the Competition Commission on various open matters. The proposed penalty remains to be settled with the Competition Commission and then reviewed by the Competition Tribunal.

Prospects

The business environment for the next reporting period is not expected to improve from prevailing conditions. Maize and soya pricing as key cost drivers in feed and poultry will remain at high levels with limited ability to recover the increased production costs from a depressed poultry market exacerbated by record levels of poultry imports.

Declaration of Ordinary Dividend No. 23

The board has approved and declared an interim dividend of 336 cents per ordinary share (gross) in respect of the six months ended 31 March 2012.

The dividend will be subject to the new Dividends Tax that was introduced with effect from 1 April 2012. In accordance with paragraphs 11.17 (a) (i) to (x) and 11.17(c) of the JSE Listings Requirements the following additional information is disclosed:

The dividend has been declared out of income reserves;

The local Dividends Tax rate is 15% (fifteen per centum);

There are no Secondary Tax on Companies (STC) credits utilised;

The gross local dividend amount is 336 cents per ordinary share for shareholders exempt from the Dividends Tax;

The net local dividend amount is 285.6 cents per ordinary share for shareholders liable to pay the Dividends Tax;

Astral Foods has currently 42 148 885 ordinary shares in issue (which includes 4 088 577 treasury shares); and

Astral Foods Ltd`s income tax reference number is 9125190711.

Shareholders are advised of the following dates in respect of the interim dividend:

| | |
|---|---|
| Last date to trade cum dividend | Friday, 8 June 2012 |
| Shares commence trading ex dividend | Monday, 11 June 2012 |
| Record date | Friday, 15 June 2012 |
| Payment of dividend | Monday, 18 June 2012 |

Share certificates may not be dematerialised or rematerialised between Monday, 11 June 2012 and Friday, 15 June 2012, both days inclusive.

On behalf of the board

| | |
|---|---|
| JJ Geldenhuys | CE Schutte |
| Chairman | Chief Executive Officer |

Pretoria

14 May 2012

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*CE Schutte (Chief Executive Officer)

*GD Arnold

*T Delport

Dr T Eloff

*DD Ferreira (Financial Director)

IS Fourie

*Dr OM Lukhele

M Macdonald

TCC Mampane

Dr N Tsengwa

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