

Clover Industries Limited  
(Incorporated in the Republic of South Africa)  
(Registration Number: 2003/030429/06)  
ISIN: ZAE000152377  
Share Code: JSE: CLR, NSX:CLN

SUMMARISED AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017

Key Financial Indicators

REVENUE  
UP 2.4%  
R10 billion

OPERATING PROFIT  
DOWN 44.3%  
R314.5 million

HEADLINE EARNINGS  
DOWN 65.9%  
To R121.6 million

HEPS  
DOWN 66.2%  
63.9 cents

EPS  
DOWN 55.3%  
to 83.1 cent

TOTAL DIVIDEND PER SHARE  
DOWN 62.8%  
24.21 cents

Commentary

OPERATIONAL OVERVIEW

Clover faced an exceptionally challenging year as South African food producers and retailers had to contend with several complex and ongoing issues in the economy.

Some impacts such as the prolonged drought, a wetter and cooler summer and rand volatility were beyond our control. The resultant above-inflation input costs, subdued volume growth and continued low consumer spending amidst aggressive competitor pricing meant that we had to take some very tough decisions during the year, to position and sustain the business optimally against a constrained "new reality".

This obviously came at a price as reflected in our subdued financial performance. The fact that the 2015 and 2016 financial results set an exceptionally high benchmark we

were very conscious of guarding against short-term, knee-jerk solutions.

Headline earnings decreased by 65,9% or R235,0 million to R121,6 million. This decrease in headline earnings is primarily because of headline operating profit, which decreased by 52,4% or R298,0 million and net finance costs, which increased by 18,0% or R20,3 million.

Revenue improved by 2,4% or R 239,9 million to R10 058,6 million. Sale of products revenue increased by 3,3% to R9 401,8 million, despite overall volume decreases of 3,5%. This was primarily due to lower selling price increases, necessitated by the drought to recover farm gate raw milk and ingredients price increases, and muted consumer sentiment. The full implementation of a major retailer's distribution centralisation resulted in additional charges against sales in the form of an increased DC allowance. Retailers have generally also been more aggressive with volume rebates and co-operative advertising campaign requirements.

Services rendered to principals contributed R641,5 million to revenue, which was 6,3% lower than the previous year. The decrease was primarily because of the subdued market conditions of our principals, as well as the liquidation of a recently signed principal.

Cost of sales increased 4,4% or R307,5 million, in contrast to the 2,4% or R239,9 million growth in revenue. As a result, gross profit percentage decreased from 28,4% to 27,1% and gross profit decreased by 2,4% or R67,7 million. The gross profit margin was assisted during the year with recipe changes to accommodate the sugar tax, but the full impact will only be realised in future.

In addition, the drought had a major impact on the availability and increased cost of raw milk and fruit pulp. At the time of writing this report, the culling of herds due to the drought still negatively impacts the producers and there is a current challenge to supply the forecasted market with milk, however the milk flow during this spring and summer will determine market conditions for next winter. Clover deliberately maintained its rejuvenated high-volume infrastructure as it was unclear if volumes would return, and fixed costs were therefore relatively stable compared to inflation, and in some instances were even lower and well maintained. Clover however invested significantly in its future through higher marketing costs, research and development costs.

Approximately R46,8 million was spent on retrenchment costs, which are classified as restructuring expenses. This was predominantly for consolidating the City Deep distribution centres into Clayville as well as other manufacturing and distribution efficiency drives that will bode well for the future.

#### INVESTMENT AND FUNDING

Clover stated in our interim results that selling prices were significantly higher to combat the effects of a prolonged drought primarily in the Highveld, Kwazulu-Natal, and the Western and Eastern Cape. The drought in the Highveld and Kwazulu-Natal was subdued with great summer rainfall, while the sub-optimal conditions in the Western and Eastern Cape prevailed. The countries milk flow was relatively stable

when compared to the prior year, but the cooler and wetter summer in December 2016, and the higher selling prices, resulted in volumes decreasing, particularly in the beverage segment. This resulted in Inventory levels increasing by 5,2% or R47,7 million in comparison to the previous corresponding reporting period.

Trade and other receivables were relatively stable and only marginally increased because of the overall increase in revenue of 2,4%.

Clover's lower volumes, accounted for R88,6 million or 6,5% reduction in trade and other payables. There was a reduction in other current financial liabilities of R19,5 million which is mainly as a result of the diesel hedges coming to an end.

Cash generated from operations, before working capital changes, totalled R439,2 million compared to R709,7 million reported in the prior year. Lower cash generation was primarily due to the lower profit recorded. In this year, working capital absorbed R162,2 million of cash compared to the R36,2 million of the prior year. Lower volumes because of the higher selling prices given the cooler and wetter summer, Clover spent R 67,8 million more on inventory in comparison to the previous corresponding period. Trade and other receivables slightly increased compared to last year given the marginal improvement in revenue.

Investment activities consumed R277,7 million in cash compared to R332,6 million in the previous year, following the sale of the Bellville and Stikland properties. Clover also spent R49,8 million less capital on tangible assets.

Group gearing increased from 44,1% to 51,4 % at 30 June 2017. The increased gearing was primarily because of the lower profits and increased working capital requirements. Clover's gearing is well within our ability to service interest and repayments, but we have limited capacity to fund new growth opportunities.

#### OPERATIONAL RESTRUCTURE

Since listing in 2010, we have been working towards diversifying Clover's business away from low-margin, commoditised bulk dairy products, focusing on higher margin value-added branded food and beverages to improve operating margins across the portfolio. In contrast, profit on traditional dairy products are typically driven by volumes and this would apply to fresh milk, ultra-high temperature milk, ultra-pasteurised milk, skim milk powder, whole milk and bulk cream.

A recent strategic review of our product portfolio highlighted new trends in the milk business model where owner-producers supply the trade directly, as opposed to traditional intermediary companies like Clover. This means that commodity products like fresh, UHT and UP liquid milk ("non-value-added drinking milk") has drifted outside of our core product portfolio.

Since our strategic focus is on value-added product categories, it made strategic sense to transfer the supply and demand side of the volume driven business to a new entity and invest our future funds in more profitable businesses that will suit our business model better, whilst remaining a substantial service provider to the dairy industry.

In one of the biggest milestones since Cielo Blu in 2010, we formed a wholly owned subsidiary (called Dairy Farmers of South Africa (Pty) Ltd ("DFSA")) that will house the non-value added dairy business of Clover with effect from 1 April 2017. DFSA is responsible for the procurement of raw milk as well as the selling, marketing and distribution of the non-value-added drinking milk above.

As communicated on the SENS, the board of directors of Clover announced that the issue and allotment of the B shares in DFSA to the milk producers has been implemented with effect from 1 July 2017 and accordingly, the milk producers now hold all the B shares which constitute 74% of the voting rights of DFSA. Clover holds all the A shares which constitute 26% of the voting rights of DFSA.

#### PROSPECTS

Consumer confidence remains lacklustre with discretionary spend under pressure. The improved outlook for inflation and recent reduction in interest rates should provide some relief although the prospect of future interest rate cuts is uncertain.

While the after effects of the prolonged drought will be felt for some time, a gradual recovery in milk and fruit production volumes together with the strengthening of the rand to the dollar should result in a reduction in input cost inflation.

We therefore remain optimistic and excited about Clover's future as we have considered and employed measurable strategies that will return the Company's profitability to historic levels over the medium and longer term.

#### DIVIDEND CONSIDERATION

During the consideration of the interim dividend for 1H17 the board decided to maintain the interim dividend in line with the prior year's interim dividend and declared a dividend of 24,21 cents per share, although the interim headline earnings were 13.5% lower than the prior interim period's results.

Although the Board communicated in the past that it will follow a progressive dividend policy whereby dividends are as minimum maintained or grown by at least the growth in the headline earnings per share, the Board has resolved not to declare a final dividend due to the current weak economic circumstance and the Group's growth funding requirements. The total dividends for 2016/17 however represent a dividend cover of 2,6 times compared to the 2015/16 dividend cover of 2,9 times.  
On behalf of the Board

WI Buchner  
Chairman

JH Vorster  
Chief Executive

11 September 2017

Summarised Consolidated Statement of Comprehensive Income  
For the year ended

30 June  
2017

30 June  
2016

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	R'000	R'000
Sale of products	9 401 842	9 102 469
Rendering of services	641 499	684 496
Sale of raw milk	11 907	22 769
Rental income	3 351	8 983
Revenue	10 058 599	9 818 717
Cost of sales	(7 333 041)	(7 025 497)
Gross profit	2 725 558	2 793 220
Other operating income	60 040	73 688
Selling and distribution costs	(2 089 364)	(1 944 333)
Administrative expenses	(284 721)	(300 461)
Restructuring expenses	(48 098)	(8 493)
Other operating expenses	(48 936)	(49 171)
Operating profit	314 479	564 450
Finance income	12 647	10 139
Finance cost	(145 765)	(122 964)
Share of profit of a joint venture	18 486	14 268
Profit before tax	199 847	465 893
Taxes	(41 105)	(113 992)
Profit for the year	158 742	351 901
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translations of foreign operations, net of tax	(14 510)	26 461
Exchange differences on translations of foreign operations	(14 510)	(1 905)
Reclassified to profit or loss	-	28 366
Income tax effect	-	-
Net gain/(loss) on cash flow hedges, net of tax	(2 412)	2 412
Cash flow hedge fair value adjustment	(9 294)	(22 500)
Reclassified to profit or loss	5 944	25 850
Income tax effect	938	(938)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(16 922)	28 873
Total comprehensive income for the year, net of tax	141 820	380 774
Profit for the year attributable to:		
Equity holders of the parent	158 258	350 906
Non-controlling interests	484	995
	158 742	351 901
Total comprehensive income attributable to:		
Equity holders of the parent	141 336	379 779
Non-controlling interests	484	995
	141 820	380 774
Headline Earnings and Headline Earnings Per Share		
For the year ended		
	30 June	30 June
	2017	2016
	R'000	R'000
Headline earnings calculation		
Profit for the year attributable to equity holders of the parent company	158 258	350 906
Gross remeasurements excluded from headline earnings	(42 674)	5 776
Profit on sale of property, plant and equipment and gains on other assets	(33 404)	(20 869)

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Bargain purchase at acquisition (Clover Good Hope)	-	(1 721)
Release of foreign currency translation reserve in abandonment of foreign operation	-	28 366
Profit on the sale of an investment in subsidiary	(9 270)	-
Taxation effects of remeasurements	6 033	(87)
Headline earnings attributable to shareholders of the parent company	121 617	356 595
Issued ordinary shares	190 835 364	190 314 350
Number of ordinary shares used in the calculation of:		
Earnings per share		
- weighted average	190 433 237	188 733 409
Diluted earnings per share		
- weighted average	192 358 073	193 021 978
Earnings per share attributable to ordinary equity holders of the parent		
Earnings per share (cents)	83,1	185,9
Diluted earnings per share (cents)	82,3	181,8
Headline earnings per share (cents)	63,9	188,9
Diluted headline earnings per share (cents)	63,2	184,7

## Summarised Consolidated Statement of Financial Position

As at

	30 June 2017 R'000	30 June 2016 R'000
<b>ASSETS</b>		
Non-current assets		
Property, plant and equipment	2 427 444	2 323 216
Investment properties	9	15
Intangible assets	650 663	612 191
Investment in joint venture	38 946	31 651
Other non-current financial assets	3 165	5 657
Deferred tax assets	45 496	37 019
	3 165 723	3 009 749
Current assets		
Inventories	964 630	916 909
Trade and other receivables	1 341 311	1 308 223
Prepayments	19 844	16 184
Income tax receivable	7 165	-
Cash and short-term deposits	544 863	604 071
	2 877 813	2 845 387
Assets classified as held-for-sale	4 607	10 907
Total assets	6 048 143	5 866 043
<b>EQUITY AND LIABILITIES</b>		
Equity		
Issued share capital	9 542	9 516
Share premium	892 692	882 774
Other capital reserves	78 642	74 873
Foreign currency translation reserve	9 637	24 147
Cash flow hedge reserve	-	2 412
Retained earnings	1 904 349	1 871 690

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Equity attributable to equity holders of the parent	2 894 862	2 865 412
Non-controlling interests	(15 179)	23 305
Total equity	2 879 683	2 888 717
Liabilities		
Non-current liabilities		
Interest-bearing loans and borrowings	767 621	931 455
Non-controlling interest put liability	57 088	-
Employee-related obligations	82 595	73 474
Deferred tax liability	221 065	192 358
Trade and other payables	25 492	19 311
Other non-current financial liabilities	9 683	2 199
	1 163 544	1 218 797
Current liabilities		
Trade and other payables	1 274 700	1 363 332
Interest-bearing loans and borrowings	714 304	343 015
Other current financial liabilities	6 141	25 612
Income tax payable	-	9 893
Employee-related obligations	9 771	16 677
	2 004 916	1 758 529
Total liabilities	3 168 460	2 977 326
Total equity and liabilities	6 048 143	5 866 043

Summarised Consolidated Statement of Changes in Equity  
For the year ended

	30 June 2017 R'000	30 June 2016 R'000
Balance at 1 July	2 888 717	2 584 848
Profit for the year	158 742	351 901
Other comprehensive income	(16 922)	28 873
Total comprehensive income	141 820	380 774
Ordinary shares issued	731	44 540
Share-based payment expense recognised	5 865	12 697
Share appreciation rights exercised, net of tax	(1 012)	(35 347)
Initial recognition of call options	-	1 005
Non-controlling interest arising from business combination	24 234	8 800
Non-controlling interest put option movement	(57 088)	-
Acquisition of non-controlling interest	(8 354)	-
Dividends to non-controlling interest	(490)	-
Dividends	(114 802)	(108 755)
Dividends forfeited	62	155
Balance at end of the year	2 879 683	2 888 717
Consists of:		
Share capital and premium	902 234	892 290
Other capital reserves	78 642	74 873
Foreign currency translation reserve	9 637	24 147
Cash flow hedge reserve	-	2 412
Retained earnings	1 904 349	1 871 690
Shareholder equity	2 894 862	2 865 412

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Non-controlling interest	(15 179)	23 305
Total equity	2 879 683	2 888 717

Summarised Consolidated Statement of Cash Flows  
For the year ended

	30 June 2017 R'000	30 June 2016 R'000
<b>OPERATING ACTIVITIES</b>		
Profit before tax	199 847	465 893
Adjustment for non-cash items	286 451	300 723
Working capital adjustments	(162 227)	(36 230)
Income tax paid	(47 115)	(56 938)
Net cash flows (used in)/from operating activities	276 956	673 448
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of property, plant and equipment and other assets	58 941	45 533
Interest received	12 647	10 139
Acquisition of controlling interest in Clover Good Hope Proprietary Limited	-	(2 550)
Acquisition of controlling interest in Clover Frankies Proprietary Limited	-	(6 610)
Acquisition of controlling interest in Clover Pride Proprietary Limited	(29 639)	-
Disposal of controlling interest in Lactolab Proprietary Limited	10 275	-
Government grant received recognised against property, plant, equipment and expenses	-	16 097
Capital expenditure: Tangible and intangible assets	(322 554)	(423 071)
Cancellation of a finance lease	3 854	-
Realised foreign exchange (loss)/gain	(11 232)	27 833
Net cash flows used in investing activities	(277 708)	(332 629)
<b>FINANCING ACTIVITIES</b>		
Interest paid	(145 765)	(122 964)
Dividends paid	(115 230)	(108 755)
Non-controlling interest acquired in Clover Frankies Proprietary Limited	(4 440)	-
Cancellation of a finance lease	(3 854)	-
Repayment of borrowings	(285 668)	(254 646)
Proceeds from borrowings	496 975	273 939
Net cash flows from financing activities	(57 982)	(212 426)
Net (decrease)/increase in cash and cash equivalents	(58 734)	128 393
Net foreign exchange difference	(474)	242
Cash and cash equivalents at the beginning of the year	604 071	475 436
Cash and cash equivalents at the end of the year	544 863	604 071

## Accounting policies and notes

## 1. CORPORATE INFORMATION AND BASIS OF PREPARATION

These summarised consolidated financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), its interpretations issued by the IFRS Interpretations Committee, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, presentation and disclosure as required by IAS 34 Interim Financial Reporting, the JSE Listings Requirements and the requirements of the Companies Act of South Africa. The accounting policies are consistent in all material respects with those of the previous annual financial statements. New and amended IFRS and IFRIC interpretations were adopted by the Group during the year but these did not have an impact on the Group.



## 2. SEGMENT REPORTING

The Group's manufacturing, distribution, other assets and liabilities are totally integrated between the different product groups. The Chief Executive Officer (the Chief Operating Decision Maker) is of the opinion that the operations for individual manufacturing, distribution and product groups are substantially similar to one another and that the risks and returns are likewise similar. As a result thereof, the business of the Group is considered to be a single segment, namely Clover Industries Limited ("CIL").

Group operations outside of South Africa are insignificant and therefore not disclosed separately.

The following information regarding the Group's product groups, for which no discrete financial information is available, are presented on a voluntary basis. The Group comprises the following main product groups:

- The dairy fluids products is focused on providing the market with quality dairy fluid products.
- The dairy concentrated products consist of cheese, butter, condensed milk and retail milk powders.
- The ingredients products consist of bulk milk powders, bulk butter, bulk condensed milk, bulk creamers, calf feed substitutes, whey powder and buttermilk powder.
- The non-alcoholic beverages products focus on the development and marketing of non-alcoholic, value-added branded beverages products.
- The fermented products and desserts consist of yoghurt, maas and desserts
- The soya and oil products consist of soya, olive oil and olives. In the comparative year "other" consist of laboratory services rendered by Lactolab.

For the year ended	30 June 2017 R'000	30 June 2016 R'000
External revenue from sale of products *		
Dairy fluids	4 643 600	4 427 051
Dairy concentrated products	1 312 575	1 355 240
Ingredients	216 424	266 909
Non-alcoholic beverages	2 369 071	2 367 158
Fermented products and desserts	794 403	679 481
Olive oil & Soya	65 769	6 630
	9 401 842	9 102 469
Margin on material #		
Dairy fluids	1 764 858	1 795 746
Dairy concentrated products	393 180	400 652
Ingredients	71 265	40 146
Non-alcoholic beverages	1 288 742	1 314 252
Fermented products and desserts	220 274	195 877
Olive oil & Soya	29 714	4 754
	3 768 033	3 751 427

\* External revenue excludes revenue from the sale of raw milk.

# Margin on material consist of sale of products plus sale of raw milk less charges against sales, cost of material and packaging and milk collection cost.

Assets, liabilities and overheads are managed on a Group basis and are therefore not allocated to the product groups.

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

## 3. EARNINGS PER SHARE

The difference between earnings per share and diluted earnings per share is due to the impact of equity settled unexercised share appreciation rights.

## 4. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the year under review the Group acquired property, plant and equipment to the value of R316,8 million and also acquired intangible assets at a cost of R5,7 million. This excludes the effect of the tangible and intangible assets acquired as part of the business combination in note 7.1.

Certain items of property, plant and equipment have been classified as assets classified held-for-sale. It is those assets that are expected to be disposed of within the next 12 months.

## 5. FOREIGN CURRENCY TRANSLATION RESERVE AND CASH FLOW HEDGE RESERVE

The Group purchases diesel on an ongoing basis as its operating activities in the distribution division require a continuous supply of diesel for the transport of its own products and those of its principals. Due to the recent fluctuations in the commodities market specifically relating to the international price of oil and the effect it had on the price of diesel locally the Group entered into a diesel hedge with RMB in the form of a long-futures contract. The futures contracts do not result in the physical delivery of diesel, but are designated as cash flow hedges to offset the effect of the price changes in diesel.

The fair values are based on the quoted price from RMB for an item with the same expiry date and a similar value, taking into account the ruling ICE Gasoil price at year end and the forecasted change in the ICE Gasoil prices until expiry of the instrument. The realised loss portion of the Ice Gasoil long-futures contract recognised in other operating expenses in the statement of profit or loss for the year was R 5,9 million (R 4,2million net of tax) (2016: R 25,8 million (R 18,6 million net of tax)), the unrealised profit portion of R Nil (2016: R 3,3 million (R 2,4 million net of tax)) is reflected in other comprehensive income and will affect the profit or loss in the next financial year, depending on the move in the ICE Gasoil price.

During the financial year the Group hedged 1 500 000 litres of ICE Gasoil per month at an average price of R 5,61 per litre. As at 30 June 2017 all the Group diesel hedged had expired.

Other comprehensive income:

The disaggregation of changes of other comprehensive income by each type of reserve in equity is shown below:

	Cash flow hedge reserve	Foreign currency translation reserve	Total
As at 30 June 2017	R'000	R'000	R'000
Diesel forward contracts:			
Cash flow hedge fair value adjustment	(9 294)		(9 294)
Reclassified to statement of profit or loss	5 944		5 944
Income Tax Effect	938		938
Foreign exchange translation differences		(14 510)	(14 510)
	(2 412)	(14 510)	(16 922)

## 6. SHARE CAPITAL AND SHARE PREMIUM

The share premium account increased by R9.9 million from the prior financial year after the settlement of vested executive management share appreciation rights by the issue of new ordinary shares and as part of the Company's interim dividend declaration, the company gave shareholders the option to select between a cash dividend or scrip distribution share. In terms of the scrip distribution, 482 617 new ordinary shares were issued on 24 April 2017 to shareholders who did not elect to receive a cash dividend in respect of all their shares.

## 7. BUSINESS COMBINATION AND ACQUISITION OF NON-CONTROLLING INTEREST

## 7.1 Acquisition of interest in Clover Pride Proprietary Limited

Clover entered into an agreement with AECI Limited ("Seller") to form a new entity, Clover Pride Proprietary Limited ("Clover Pride")

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that acquired the Olive Pride olive oil business, effective 1 April 2017. According to the "Sale of Business Agreement" Clover Pride has acquired all of the consumables, raw materials, finished goods, equipment, material contracts, trademarks, intellectual property and goodwill in relation to the Olive Pride business from the Seller on the effective date. Clover effectively holds 51% of the shares in Clover Pride and the Seller holds the remaining 49%.

The Group has elected to measure the non-controlling interest in Clover Pride Proprietary Limited at residual value on initial recognition.

The discounted cash flow valuation of the intangible assets were based on the following inputs; estimated annual free cash flow of R5.5 million; free cash flow growth per annum of between 7% to 19% and a discount rate of 18.54%.

The fair values allocated to the assets and liabilities are based on a provisional assessment of their fair values. According to IFRS 3.45, the Company is allowed a measurement period, not exceeding one year, to retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of the effective date.

The fair values of the identifiable assets, liabilities, goodwill and non-controlling interest of the Olive Pride business as at the date of acquisition were:

	R'000
<b>Assets</b>	
Property, plant and equipment	502
Inventory	8 659
Intangible assets	38 217
	47 378
<b>Liabilities</b>	
Deferred tax liability	(10 841)
Loan	(4 243)
Total identifiable net assets at fair value	32 294
Goodwill arising on acquisition	21 579
Total value of the Clover Pride business	53 873
Non-controlling interest measured at residual value	24 234
Purchase consideration settled in cash	29 639

The business contributed R22.4 million of revenue and R7.7 million of margin on material to the Group results since acquisition. These amounts would have been R89,6 million and R30.8 million respectively if annualised for the full period.

7.2 Acquisition of non-controlling interest in Clover Frankies Proprietary Limited

With effect from 31 March 2017 Clover SA bought the remaining 49% issued ordinary shares of Clover Frankies from Frankies Olde Soft Drinks cc ("Seller") for a cash consideration of R4.44 million. From this date Clover effectively holds 100% of the shares in Clover Frankies.

Clover Frankies previously acquired the Frankies Carbonated Soft Drinks (CSD) and ice lollies business ("the business") from the seller. The business involves the manufacturing, distribution, selling and marketing of CSDs and ice lollies utilising the trademarks it acquired under the original business acquisition.

No goodwill may be recognised because of this transaction as Clover already had a controlling interest, holding 51% of the issued ordinary shares in Clover Frankies prior to this transaction.

The call and put option related to the initial acquisition was subsequently cancelled.

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The carrying amounts of the identifiable assets and liabilities of Clover Frankies as at the effective date were:

	R'000
<b>Assets</b>	
Plant and Equipment	245
Intangible assets	11,534
Inventory	1,749
Trade Receivables	2,567
Cash and cash equivalents	1,417
	17,512
<b>Liabilities</b>	
Deferred tax liability	75
Trade and other payables	5,958
	6,033
Total identifiable net assets at non-controlling interest acquisition date	11,479
Non - controlling interest at carrying amount	5,624
Equity movement due to acquisition of non-controlling interest	2,730
Call option directly attributable to the acquisition of the non-controlling interest	(3,914)
Purchase consideration settled in cash	4,440

#### 8. NON-CONTROLLING INTEREST PUT OPTION LIABILITIES

The Group has entered into transactions with non-controlling interest equity holders whereby they are able to put their shareholding to the Group for a limited time period. The options are accounted for using the present access method. These are written put options in respect of which the Group does not have an unconditional right to avoid the delivery of cash and are recognised as financial liabilities.

In the current year R57 million was recognised as liability and the corresponding debit against non-controlling interest in the statement of changes in equity.

##### Put option to acquire remaining shares in Clover Good Hope

Clover granted Good Hope the irrevocable right to sell Good Hope's 49% of the issued share capital in Clover Good Hope ("Put shares").

The put option may be exercised by Good Hope within three months after each 12-month period from the third anniversary of the effective date.

The purchase price of the put shares will be determined by way of an earnings before interest tax depreciation and amortisation (EBITDA) multiple formula.

##### Put option to acquire remaining shares in Clover Pride

Clover granted AECI the irrevocable right to sell AECI's 49% of the issued share capital in Clover Pride ("Call shares"). The put option may be exercised by AECI within three months after each 12 month period from the third anniversary of the effective date. The purchase price of the put shares will be determined by way of an earnings before interest tax depreciation and amortisation (EBITDA) multiple formula.

#### 9. DISPOSAL OF INVESTMENT IN SUBSIDIARY COMPANY - LACTOLAB

With effect from 1 July 2016 Clover disposed of its 100% shareholding in Lactolab Proprietary Limited ("Lactolab") to Swift Siliker Proprietary Limited, for a total cash consideration of R11,7 million (which results in a net cash increase of R10.3 million for the group as reflected in the summarised consolidated statement of cash flows).

#### 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

For financial instruments traded in an active market (Level 1), fair value is determined using stock exchange quoted prices. For other financial instruments (Level 2), appropriate valuation techniques, including recent market transaction and other valuation models, have been applied and significant inputs include market yield curves and exchange rates. For non-current assets (level 3) fair value has been determined based on the sale agreements. There is no difference between the fair value and carrying value of financial assets and liabilities not presented below due to either the short-term nature of these items, or the fact that they are priced at variable interest rates. Long-term fixed-rate and variable-rate

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borrowings are evaluated by the Group based on parameters such as interest rates and repayment periods as at year-end, the carrying amounts of the borrowings are not materially different from the calculated fair value.

	30 June 2017	Level 1	Level 2	Level 3
	R'000	R'000	R'000	R'000
Assets measured at fair value				
Derivatives not designated as hedging instruments:				
Call option to acquire remaining shares in Clover Good Hope (Pty) Ltd	856	-	-	856
Investment in cell captive	2 309	-	2 309	-
Liabilities measured at fair value				
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	638	-	638	-
Clover Industries shares forward purchases	13 521	-	13 521	-
Derivatives designated as hedging instruments:				
Diesel hedge	1 665	-	1 665	-
	30 June 2016	Level 1	Level 2	Level 3
	R'000	R'000	R'000	R'000
Assets measured at fair value				
Derivatives not designated as hedging instruments:				
Call option to acquire remaining shares in Clover Frankies (Pty) Ltd	3 297	-	-	3 297
Call option to acquire remaining shares in Clover Good Hope (Pty) Ltd	560	-	-	560
Investment in cell captive	1 800	-	1 800	-
Liabilities measured at fair value				
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	86	-	86	-
Clover Industries shares forward purchases	5 225	-	5 225	-
Derivatives designated as hedging instruments:				
Diesel hedge	22 500	-	22 500	-

During the reporting period ended 30 June 2017, there were no transfers between Level 1 and Level 2 fair value measurements.

During the reporting period ended 30 June 2016, there were no transfers between Level 1 and Level 2 fair value measurements.

Reconciliation of fair value measurement of level 3 financial assets	2017	2016
	R'000	R'000
Call option to acquire remaining shares in Clover Frankies (Pty) Ltd		
Balance at the beginning of the year	3,297	-
Initial recognition through OCI	-	445
Remeasurement recognised through statement of profit or loss	617	2,852
Derecognised against investment in Clover Frankies (note 3.2)	(3,914)	-
Balance at the end of the year	-	3,297
Call option to acquire remaining shares in Clover Good Hope (Pty) Ltd		
Balance at the beginning of the year	560	-
Initial recognition through OCI	-	560
Remeasurement recognised through statement of profit or loss	296	-
Balance at the end of the year	856	560

Call option to acquire remaining shares in Clover Frankies

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The option value has been derecognised against the investment in Clover Frankies - Refer to note 7.2.

Call option to acquire remaining shares in Clover Good Hope

Good Hope granted Clover the irrevocable right to purchase Good Hope's 49% of the issued share capital in Clover Good Hope ("Call shares"). The call option may be exercised by Clover within three months after each 12 month period from the fifth anniversary of the effective date. The purchase price of the call shares will be determined by way of an earnings before interest tax depreciation and amortisation (EBITDA) multiple formula.

Call option to acquire remaining shares in Clover Pride

AECI granted Clover the irrevocable right to purchase AECI's 49% of the issued share capital in Clover Pride ("Call shares"). The call option may be exercised by Clover within three months after each 12 month period from the third anniversary of the effective date. The purchase price of the call shares will be determined by way of an earnings before interest tax depreciation and amortisation (EBITDA) multiple formula.

Foreign exchange contracts

Foreign exchange contracts through profit or loss are those foreign exchange forward contracts that are not designated in hedge relationship as they are intended to reduce the level of foreign currency risk for expected sales and purchases.

Clover Industries shares forward purchase

The Group had entered into a forward contract to purchase 2 132 695 Clover Industries shares, this transaction was entered into to hedge a portion of the share appreciation rights issued to management.

The fair value of the shares forward purchases was determined by Investec Bank Limited. The fair value was determined by calculation the future settlement price after the following inputs were taken into consideration, a dividend of 3,92% (2016: 3,11%), a credit spread of 2,75% (2016: 2,75%), a spot rate of R16,55 (2016: R18,51) and a swap interest rate reflecting the term of each tranche of the hedge.

Diesel hedge

The Group entered into a diesel hedge with RMB in the form of a long-futures contract. Refer to note 5 for more information in relation to diesel hedge.

11. RELATED PARTY DISCLOSURE

Transactions with related parties are made at market-related prices.

Business done with Non-Executive Directors or legal entities that are related to them, the following transactions took place:

	2017	2016
	R'000	R'000
Milk purchased from the following Non-executive Directors or companies in which they are connected by Clover SA:		
WI Bchner	146 949	104 643
NA Smith	49 358	44 632
PR Griffin (Resigned 30 November 2016)	7 284	15 362
Total milk purchased from Non-Executive Directors	203 591	164 637

12. EVENTS AFTER THE REPORTING PERIOD

As communicated on the SENS Clover transferred the non-value added dairy business to its wholly owned subsidiary, Dairy Farmers of South Africa (Pty) Ltd. ("DFSA"), under a written transfer of business agreement with effect from 1 April 2017. In exchange for the transfer of the non-value added dairy business as aforementioned, DFSA allotted and issued to Clover, shares in DFSA. The board of directors of Clover announced that the issue and allotment of the B shares in DFSA to the milk producers has been implemented with effect from 1 July 2017 and accordingly, the milk producers now hold all the B shares which constitute 74% of the voting rights

of DFSA. Clover holds all the A shares which constitute 26% of the voting rights of DFSA.

Except for the above no significant events occurred subsequent to the year-end that would require disclosure or amendment to these financial statements.

13. GOING CONCERN

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

14. PREPARATION OF SUMMARISED CONSOLIDATED FINANCIAL RESULTS

These summarised consolidated financial statements are extracted from audited information, but are not itself audited. The directors take full responsibility for the preparation of the summarised consolidated financial statements and ensured that the financial information has been accurately extracted from the underlying audited consolidated annual financial statements. The audited financial statements summarised in this section were prepared under the supervision of Elton Ronald Bosch, CA(SA), in his capacity as Chief Financial Officer of the Group.

15. INDEPENDENT AUDIT BY AUDITORS

The annual financial statements from which the summarised consolidated financial statements were derived, have been audited by the Group's independent auditors, Ernst & Young Inc. A copy of their unmodified report is available for inspection at the company's registered office.

16. ANNUAL GENERAL MEETING

The Annual General Meeting of the company will be held at 200 Constantia Drive, Constantia Kloof, Roodepoort, 1709 on Tuesday, 28 November 2017, at 10:00 to transact the business as stated in the Annual General Meeting notice which will be distributed to shareholders on 27 September 2017.

Record date to determine which shareholders are entitled to receive the notice of Annual General Meeting	Friday, 15 September 2017
Last day to trade in order to be eligible to attend and vote at the Annual General Meeting	Tuesday, 14 November 2017
Record date to determine which shareholders are entitled to attend and vote at the Annual General Meeting	Friday, 17 November 2017
Forms of proxy for the Annual General Meeting to be lodged by 10:00 on*	Friday, 24 November 2017

\* Any proxies not lodged by this time must be handed to the Chairperson of the Annual General Meeting immediately prior to the Annual General Meeting.

17. PUBLISHING OF INTEGRATED REPORT

The full integrated report will be published on Clover's website on 27 September 2017, the same day the Annual General meeting notice will be distributed to Shareholders.

ANNEXURE TO THE RESULTS ANNOUNCEMENT FOR THE YEAR ENDED  
30 JUNE 2017

PRO FORMA REGARDING THE EFFECT OF THE OPERATIONAL RESTRUCTURING OF DFSA ON THE CONSOLIDATED RESULTS OF CLOVER  
INDUSTRIES LIMITED ("Clover")

Introduction

On 1 July 2017 Clover concluded a corporate action that will have an impact on the 2018 financial year.

A recent strategic review of our product portfolio highlighted new trends in the milk business model where owner-producers supply the trade directly, as opposed to traditional intermediary companies like Clover. This means that commodity products like Fresh, Ultra High Temperature ('UHT') and Ultra Pasteurised ('UP') milk ('non-value-added drinking milk') has drifted outside of our core product portfolio.

Since our strategic focus is on value-added product categories, it made strategic sense to transfer the supply and demand side of the volume driven business to a new entity and invest our future funds in products and businesses that will suit our future business model better, whilst remaining a substantial service provider to non-value added drinking milk industry.

As communicated on the Securities Exchange News Service on 6 July 2017 and earlier, Clover has formed a wholly owned subsidiary (called Dairy Farmers of South Africa (Pty) Ltd ('DFSA')). Clover transferred the non-value added dairy business and sold the related finished goods, packaging material and ingredients inventory, to DFSA with effect from 1 April 2017. In exchange for the transfer of the non-value added dairy business as aforementioned, DFSA allotted and issued to Clover A shares (which constituted the entire issued share capital of DFSA at the time) for a nominal amount, and a loan account for the inventory.

With effect from 1 July 2017, DFSA issued and allotted B shares to the milk producers for a nominal amount and accordingly, the milk producers now hold all the B shares which constitute 74% of the voting rights of DFSA. Clover holds all the A shares which constitute 26% of the voting rights of DFSA.

With effect from 1 July 2017 Clover relinquished its control of DFSA and will for accounting purposes treat it as an investment in an associate going forward.

DFSA houses the non-value added drinking milk business and is responsible for the procurement of raw milk as well as the selling, marketing and distribution of the non-value-added drinking milk referred to above.

DFSA will subsequently become Clover's largest principal, where all its related requirements such as distribution, production, administration (invoicing, debt collection, marketing), IT services, payroll administration, central services, sales and merchandising are outsourced to Clover for an initial period of 20 years. In exchange for these services, Clover will earn service income.

This Annexure to the results announcement includes the 30 June 2017 audited results which has been adjusted to reflect the loss of control of DFSA ("Pro Forma Adjustments") as if the loss of control of DFSA had occurred (a) on 1 July 2016 for purposes of the Pro Forma Adjustments made to the pro forma consolidated statement of comprehensive income and (b) as at 30 June 2017 for purposes of the Pro Forma Adjustments made to the pro forma consolidated statement of financial position.

The pro forma financial information has been prepared for illustrative purposes only, to provide information about how the Pro Forma Adjustments might have affected the financial information presented by Clover had the unbundling of DFSA occurred on 1 July 2016 for statement of comprehensive income purposes and as at 30 June 2017 for statement of financial position purposes. Because of its pro forma nature, the pro forma financial information may not fairly present Clover's financial position, changes in equity, results of operation or cash flows. It does not purport to be indicative of what the financial results would have been, had the loss of control of DFSA been implemented on a different date.

The Clover Directors are responsible for the preparation of the pro forma financial information. The pro forma financial information has been prepared using accounting policies that are consistent with IFRS and with the basis on which the historical financial information has been prepared in terms of the accounting policies of Clover. The pro forma financial information has been prepared in accordance with the Listings Requirements and the revised Guide on Pro Forma Financial Information issued by the South African Institute of Chartered Accountants.

These pro forma financial effects have been prepared to assist Clover's shareholders in assessing the impact of the loss of control of DFSA on the Clover consolidated statement of comprehensive income and statement of financial position.

This pro forma financial information has been reported on by the independent external auditors, Ernst & Young Inc., in terms of International Standards on Assurance Engagements (ISAE) 3420, Assurance Engagements to Report on the Compilation of Pro forma Financial Information Included in a Prospectus. Their unmodified limited assurance report is available for inspection at the Company's registered office.



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## PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	30 June 2017 Audited (1) R'000	Exclusion of the revenue and cost of sales of the DFSA business (2) Pro forma adjustment R'000	Income from services rendered to DFSA (3) Pro forma adjustment R'000	Packaging material procured and sold to DFSA (4) Pro forma adjustment R'000	Interest charged on working capital facility (5) Pro forma adjustment R'000	After Pro Forma Adjustments R'000
Sales of products	9 401 842	(3 549 806)		517 499		6 369 535
Rendering of services	641 499		1 192 922			1 834 421
Sale of raw milk	11 907					11 907
Rental income	3 351					3 351
Revenue	10 058 599	(3 549 806)	1 192 922	517 499		8 219 214
Cost of sales	(7 333 041)	2 321 032		(517 499)		(5 529 508)
Gross profit	2 725 558	(1 228 774)	1 192 922			2 689 706
Other operating income	60 040					60 040
Selling and distribution costs	(2 089 364)					(2 089 364)
Administrative expenses	(284 721)					(284 721)
Restructuring expenses	(48 098)					(48 098)
Other operating expenses	(48 936)					(48 936)
Operating profit	314 479	(1 228 774)	1 192 922			278 627
Finance income	12 647				35 852	48 499
Finance costs	(145 765)					(145 765)
Share of profit in a joint venture	18 486					18 486
Profit before tax	199 847	(1 228 774)	1 192 922		35 852	199 847
Taxation	(41 105)	344 057	(334 018)		(10 039)	(41 105)
Profit for the year	158 742	(884 717)	858 904		25 813	158 742

## PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2017 Audited (1) R'000	Sale of inventory (6) Pro forma adjustment R'000	After Pro Forma Adjustments R'000
Assets			
Non-Current assets			
Property, plant and equipment	2 427 444		2 427 444
Investment properties	9		9
Intangibles assets	650 663		650 663
Investment in joint ventures	38 946		38 946
Other non-current financial assets	3 165		3 165
Deferred tax assets	45 496		45 496
	3 165 723		3 165 723
Current assets			

		Clover SENS 110917 v4	
Inventories	964 630	(244 076)	720 554
Trade and other receivables	1 341 311	244 076	1 585 387
Prepayments	19 844		19 844
Income tax receivable	7 165		7 165
Cash and short term deposits	544 863		544 863
	2 877 813		2 877 813
Assets classified as held for sale	4 607		4 607
Total assets	6 048 143		6 048 143
	30 June 2017	Sale of inventory (6)	After Pro Forma
	Audited (1)	Pro forma adjustment	Adjustments
	R'000	R'000	R'000
Equity and liabilities			
Equity			
Issued share capital	9 542		9 542
Share premium	892 692		892 692
Other capital reserves	78 642		78 642
Foreign currency translation reserve	9 637		9 637
Retained earnings	1 904 349		1 904 349
Equity attributable to holders of the parent	2 894 862		2 894 862
Non-controlling interests	(15 179)		
Total equity	2 879 683		2 879 683
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings	767 621		767 621
Non-controlling put liability	57 088		57 088
Employee-related obligations	82 595		82 595
Deferred tax liability	221 065		221 065
Trade and other payables	25 492		25 492
Other non-current financial liabilities	9 683		9 683
	1 163 544		1 163 544
Current liabilities			
Trade and other payables	1 274 700		1 274 700
Interest-bearing loans and borrowings	714 304		714 304
Other current financial liabilities	6 141		6 141
Employee-related obligations	9 771		9 771
	2 004 916		2 004 916
Total liabilities	3 168 460		3 168 460

Total equity and liabilities

6 048 143

6 048 143

## Notes:

1. As per the consolidated statement of comprehensive income and the consolidated statement of financial position for the year ended 30 June 2017 with reference to the Audited Annual Financial Statements.
2. The sale of products relating to the non-value added drinking milk, namely Fresh, UHT and UP milk that will be excluded from Clover and be part of DFSA in future. The Pro Forma Adjustment was determined with reference to actual volumes sold and realised. The tax effect was determined using the corporate tax rate of 28%.
3. Clover provided all the production, distribution, sales and merchandising, marketing and certain administrative service to DFSA at a contracted fee. The Pro Forma Adjustment was determined with reference to actual volumes produced. The contracted fee was calculated based on the actual costs for the period 1 July 2016 to 31 December 2016. The tax effect was determined using the corporate tax rate of 28%.
4. Clover procured the packaging material from third party suppliers and on-sold the packaging material to DFSA at no margin.
5. Clover provided the working capital funding to DFSA in the form of an interest bearing facility on which Clover earned interest at a rate equal to the average rate Clover pays to its interest bearing debt funders. The tax effect was determined using the corporate tax rate of 28%.
6. All the finished goods, packaging material and ingredients inventory related to Fresh, UHT and UP milk were sold to DFSA on loan account on 1 April 2017. It was assumed that the inventory was sold in the same manner on 30 June 2017 to give effect to the Pro Forma Adjustment.
7. The loss of control of DFSA was structured in such a way that the non-value-added drinking milk business broke even and therefore there was no equity accounted earnings or Investment in Associate in terms of IAS28.
8. IFRS 10 Consolidated Financial Statements paragraph 25 requires the calculation of a gain / (loss) on the deemed sale of the investment in DFSA when control is lost. On 1 July 2016 this gain / (loss) on the deemed sale would however equal the nominal amount received as consideration for the B shares issued by DFSA. It was assumed that the inventory, the only asset of DFSA on 1 July 2016, was sold in the same manner on this date as it was on 1 April 2017. Therefore, the fair value of any retained interest is zero.

## Directorate and Statutory Information

## Directors: Non-executive

WI Bøchner (Chairman)

TA Wixley# (Lead Independent)(retired 28 November 2016)

SF Booysen (Dr)# (Lead Independent)

JNS du Plessis# (Resigned 11 January 2017)

NV Mokhesi# (Appointed to audit and risk committee 1 January 2017)

B Ngonyama#

NA Smith

PR Griffin (Resigned 28 November 2016)

## # Independent

## Directors: Executive

JH Vorster (Chief Executive)

ER Bosch (Chief Financial Officer) (To resign as from 31 December 2017)

Company Secretary  
J van Heerden

Ordinary share code  
JSE: CLR, NSX:CLN

ISIN: ZAE000152377

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Tax number  
9657/002/71/4

Transfer secretary  
Computershare Investor Services Proprietary  
Limited

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Rosebank, 2196

Auditors  
Ernst & Young Inc.

Bankers  
The Absa Group, Rand Merchant Bank,  
Investec Bank

Sponsor  
Rand Merchant Bank (a division of FirstRand  
Bank Limited) (JSE)  
IJG Securities (NSX)

<http://www.clover.co.za>