ASTRAL FOODS LIMITED – Audited Annual Financial Results and Dividend Declaration for the year ended 30 September 2012

ARL 201211120001A

Audited Annual Financial Results and Dividend Declaration for the year ended 30 September 2012

Astral Foods Limited

Incorporated in the Republic of South Africa

Registration number 1978/003194/06

Share code: ARL

ISIN: ZAE000029757

AUDITED ANNUAL FINANCIAL RESULTS

and DIVIDEND DECLARATION

30 September 2012

– Revenue up 13%

– Earnings per share down 23%

– Headline earnings per share down 31%

– Final dividend 336 cents per share

– Total dividend for the year down 17%

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

	Audited	Audited	Audited
	Year ended	Year ended	Year ended
	30 Sept 2012	30 Sept 2011	30 Sept 2010
		Restated	Restated

	R'000	R'000	R'000
ASSETS			
Non-current assets	1 840 046	1 876 789	1 764 194
Property, plant and equipment	1 678 976	1 711 966	1 625 473
Intangible assets	17 169	11 120	4 913
Goodwill	136 135	140 401	124 802
Investments and loans	7 766	13 028	8 838
Deferred tax asset		274	168
Current assets	1 672 894	1 548 041	1 365 712
Inventories	379 433	321 031	262 278
Biological assets	534 806	450 130(#)	407 398(#)
Trade and other receivables	723 569	594 376(#)	553 266(#)
Current tax assets	9 819	429	2 334
Derivative financial instruments		210	196
Cash and cash equivalents	25 267	181 865	140 240
Assets held for sale	51 889		26 928
Total assets	3 564 829	3 424 830	3 156 834
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders of the parent company	1 585 227	1 574 194	1 424 091
Issued capital	2 044	2 044	736
Treasury shares	(204 435)	(204 435)	(204 435)
Reserves	1 787 618	1 776 585	1 627 790
Non-controlling interests	10 744	11 438	22 106
Total equity	1 595 971	1 585 632	1 446 197
Liabilities			
Non-current liabilities	516 367	569 100	522 117
Borrowings	14 859	99 496	80 545
Deferred tax liability	407 711	378 950	356 929
Retirement benefit obligations	93 797	90 654	84 643
Current liabilities	1 431 208	1 270 098	1 176 742
Trade and other liabilities	1 307 776	1 139 400(#)	967 545(#)
Current tax liabilities	5 684	7 316	19 556
Borrowings	116 091	121 891	188 668
Shareholders for dividend	1 657	1 491	973
Liabilities held for sale	21 283		11 778

Total liabilities	1 968 858	1 839 198	1 710 637
Total equity and liabilities	3 564 829	3 424 830	3 156 834

(#) Restated refer notes 3 and 13.

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

	Audited Year ended 30 Sept 2012 R'000	Change %	Audited Year ended 30 Sept 2011 Restated R'000
Revenue	8 160 078	13	7 227 184(#)
Operating profit	477 149	(29)	674 919
Profit on sale of interest in business unit	35 972		
Fair value adjustment of net investment in assets and liabilities held for sale			(1 805)
Profit before interest and tax	513 121	(24)	673 114
Finance income	6 396		12 676
Finance costs	(24 371)		(27 849)
Profit before tax	495 146	(25)	657 941
Tax expense	(162 646)		(222 679)
Profit for the year	332 500	(24)	435 262
Other comprehensive income			
Foreign currency translation adjustments	102		13 555
Total comprehensive income for the year	332 602	(26)	448 817
Profit attributable to:			
Equity holders of the parent company	329 335	(23)	429 217
Non-controlling interests	3 165	(48)	6 045
	332 500	(24)	435 262
Comprehensive income attributable to:			
Equity holders of the parent company	329 473	(25)	441 278
Non-controlling interests	3 129	(58)	7 539
	332 602	(26)	448 817
Earnings per share (cents)			
basic	865	(23)	1 128
diluted	864	(23)	1 126

(#) Restated refer notes 3 and 13.

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

	Audited Year ended 30 Sept 2012 R'000	Audited Year ended 30 Sept 2011 R'000
Balance beginning of the year	1 585 632	1 446 197
Total comprehensive income for the year	332 602	448 817
Dividends to the company's shareholders	(320 086)	(294 909)
Payments to non-controlling interest holders	(3 829)	(4 571)
Option value of share options granted	1 652	2 790
Shares issued		1 308
Cost of non-controlling interest in a subsidiary acquired		(14 000)
Balance at end of the year	1 595 971	1 585 632

CONDENSED GROUP SEGMENTAL ANALYSIS

	Audited Year ended 30 Sept 2012 R'000	Change %	Audited Year ended 30 Sept 2011 Restated R'000
Revenue			
Poultry			
South Africa and Swaziland	5 914 483	12	5 257 636(#)
Feed	4 571 277	24	3 684 161
South Africa	4 309 636	24	3 478 316(#)
Other Africa	261 641	27	205 845
Services and ventures	239 996	(13)	275 902
Inter-group	(2 565 678)		(1 990 515)
Feed to Poultry	(2 413 486)		(1 906 132)
Services and Ventures to Poultry and Feed	(152 192)		(84 383)
	8 160 078	13	7 227 184(#)
Operating profit			
Poultry			
South Africa and Swaziland	144 893	(59)	353 193
Feed	313 357	11	282 329

South Africa	283 135	10	257 536
Other Africa	30 222	22	24 793
Services and Ventures	18 899	(52)	39 397
	477 149	(29)	674 919
Capital expenditure			
Poultry			
South Africa and Swaziland	152 248	47	103 700
Feed	52 418	74	30 051
South Africa	31 312	25	25 040
Other Africa	21 106	321	5 011
Services and Ventures	6 745	(60)	16 977
	211 411	40	150 728
Depreciation, amortisation and impairment			
Poultry			
South Africa and Swaziland	92 804	12	82 961
Feed	22 168	6	20 977
South Africa	17 536	7	16 459
Other Africa	4 632	3	4 518
Services and Ventures	7 711	(49)	15 187
	122 683	3	119 125
Assets			
Poultry			
South Africa and Swaziland	2 830 780	11	2 561 739(#)
Feed	958 341	25	764 062
South Africa	825 049	27	649 227
Other Africa	133 292	16	114 835
Services and Ventures	4 949	(99)	368 044
Assets held for sale	51 889		
Set-off of inter-group balances	(281 130)		(269 015)
	3 564 829	4	3 424 830
Liabilities			
Poultry			
South Africa and Swaziland	1 204 362	(16)	1 440 797(#)
Feed	848 650	56	545 408
South Africa	787 266	62	485 354
Other Africa	61 384	2	60 054
Services and Ventures	175 693	44	122 008
Liabilities held for sale	21 283		

Set-off of inter-group balances	(281 130)		(269 015)
	1 968 858	7	1 839 198

(#) Restated refer notes 3 and 13.

CONDENSED GROUP STATEMENT OF CASH FLOWS

	Audited Year ended 30 Sept 2012 R'000	Audited Year ended 30 Sept 2011 R'000
Cash operating profit	596 964	809 169
Changes in working capital	(118 852)	27 782
Cash generated from operations	478 112	836 951
Income tax paid	(142 072)	(214 564)
Cash generated from operating activities	336 040	622 387
Cash used in investing activities	(116 583)	(193 261)
Capital expenditure	(209 274)	(147 556)
Finance income	6 396	12 676
Acquisition of business unit		(82 261)
Proceeds on disposal of business unit/investment held for sale	83 161	13 935
Proceeds on disposal and other	3 134	9 945
Cash flows to financing activities	(349 848)	(337 654)
Net increase in borrowings	409	5 021
Interest paid	(26 508)	(31 021)
Cost of minority interest acquired		(14 000)
Dividends paid	(323 749)	(298 962)
Shares issued		1 308
Net movement in cash and cash equivalents	(130 391)	91 472
Effects of exchange rate changes	(206)	6 938
Cash and cash equivalent balances at beginning of the year	69 416	(28 994)
Cash and cash equivalent balances at end of the year	(61 181)	69 416

ADDITIONAL INFORMATION

	Audited Year ended 30 Sept 2012 R'000	Change %	Audited Year ended 30 Sept 2011 R'000
Headline earnings	299 723	(31)	436 697
Headline earnings per share (cents)			
basic	787	(31)	1 148
diluted	787	(31)	1 145
Dividend per share (cents)			
declared out of earnings for the year	672	(17)	810
Ordinary shares			
issued net of treasury shares	38 060 308		38 060 308
weighted-average	38 060 308		38 055 446
diluted weighted-average	38 096 321		38 124 355
Net debt (borrowings less cash and cash equivalents)	105 683		39 522
Net asset value per share (Rand)	41,65	1	41,36

NOTES

1. Nature of business

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

2. Basis of preparation

The condensed consolidated financial information announcement is based on the audited financial statements of the group for the year ended 30 September 2012 which have been prepared in accordance with International Financial Reporting Standards ('IFRS'), IAS 34 Interim Financial Reporting, the Listings Requirements of the JSE Limited and the South African Companies Act (2008). The financial statements have been prepared by the financial director, DD Ferreira, CA(SA), and were approved by the board on 7 November 2012.

3. Restatement of comparative amounts for prior periods

Transactions with contract growers have been regarded as third party sales in the past and were recognised in revenue. The outstanding amount of these sales was disclosed as trade receivables. This disclosure reflected the legal right of ownership of the goods transferred and were based on technical accounting opinions.

Following a re-assessment of these transations in conjunction with the group's external auditors it was concluded that the contract growers should be regarded as suppliers rather than customers of the group. The impact of this revised interpretation is that on transfer of goods no sale should be recognised in revenue, and the goods transferred should be disclosed as biological assets and the contract growers are affectively paid a fee for rearing the birds.

There is no impact on prior period reported profits as the adjustment to revenue is offset by an adjustment to cost of sales, and the adjustment to trade receivables are offset by adjustment to biological assets and trade payables.

Details of the impact on prior period disclosure is as per note 13.

4. Accounting policies

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

5. Independent audit by the auditors

These condensed consolidated results have been audited by our accredited auditors PricewaterhouseCoopers Inc. who have performed their audit in accordance with the International Standards on Auditing. A copy of their unqualified audit report is available for inspection at the registered office of the company.

	Audited Year ended 30 Sept 2012 R'000	Audited Year ended 30 Sept 2011 R'000
6. Operating profit		
The following items have been accounted for in the operating profit:		

Directors' remuneration	25 150	15 318
Cash-settled share-based payments fair value loss		1 049
Biological assets fair value (loss)/gain	(752)	2 620
Amortisation of intangible assets	2 405	2 679
Depreciation on property, plant and equipment	116 296	115 251
Impairment of goodwill	3 012	
Impairment of property, plant and equipment	970	1 302
Profit/(loss) on sale and scrapping of property, plant and equipment	885	(6 338)
Foreign exchange (loss)/gain	(1 744)	1 214

7. Reconciliation to headline earnings

Earnings for the year	329 335	429 217
(Profit)/loss on sale and scrapping of property, plant and equipment (net of tax)	(1 705)	4 392
Profit on sale of business unit (net of tax)	(29 646)	
Fair value adjustment of investment held for sale		1 805
Insurance recovery on damaged assets (net of tax)	(3 044)	
Impairment of goodwill	3 012	
Loss on assets scrapped (net of tax)	1 073	132
Impairment of property (net of tax)	698	
Impairment of assets (net of tax)		1 151
Headline earnings for the year	299 723	436 697

8. Cash and cash equivalents per cash flow statement

Bank overdrafts (included in current borrowings)	(102 602)	(112 449)
Cash at bank and in hand	25 267	181 865
Cash and cash equivalents classified as held for sale	16 154	
Cash and cash equivalents per cash flow statement	(61 181)	69 416

9. Share capital

No shares were repurchased in terms of the share buy-back programme during the year (2011: nil).

No shares were issued in terms of the group's share incentive scheme during the period under review (2011: 12 600 shares).

10. Capital commitments

Capital expenditure approved not contracted	254 845	142 769
Capital expenditure contracted not recognised in financial statements	17 055	27 542

	Audited Year ended 30 Sept 2012 R'000	Audited Year ended 30 Sept 2011 R'000
11. Related party transactions		
Sales to joint ventures	263	1 517
Purchases from joint ventures	177 508	154 962
Receivables from joint ventures	2 991	3 882
Trade payables to joint ventures	11 385	15 654

12. Trading weeks

The reporting period for the poultry segment ends on the last Saturday of a financial year. This resulted in a 53-week reporting period for 2012 (2011: 52 weeks).

The extra trading week yielded additional revenue and gross profit of R111 million and R10 million, respectively.

13. Effect of restatement of sales to contract growers

	Revenue	Cost of sales	Biological assets	Trade and other receivables	Trade and other payables
2011	R'000	R'000	R'000	R'000	R'000
As previously disclosed	8 605 904	(7 079 662)	342 234	662 836	(1 099 964)
Reclassification	(1 378 720)	1 378 720	107 896	(68 460)	(39 436)
Restated	7 227 184	(5 700 942)	450 130	594 376	(1 139 400)
2010					
As previously disclosed			305 430	626 698	(939 009)
Reclassification			101 968	(73 432)	(28 536)
Restated			407 398	553 266	(967

545)

FINANCIAL OVERVIEW

Headline earnings for the year decreased by 31% to R300 million from last year’s R437 million, as a result of lower profitability from the poultry operations.

Group revenue increased by 12,9% from R7 227 million to R8 160 million, due to higher sales realised by both the poultry and feed segments.

The group’s profits were severely affected by lower profitablity in the poultry segment, in spite of improved profits reported from the feed segment. This resulted in the group’s operating profit reducing 29,3% to R477 million with the operating profit margin at 5,8% down on the previous year’s 9,3%. The profit before tax was down by 24,7% to R495,0 million which includes R35,9 million profit in respect of the sale of the interest in East Balt which was sold for a consideration of R96,0 million.

Net interest paid for the year increased to R18 million from last year’s R15 million as a result of increased average borrowings throughout the year.

Cash generated from operations for the year of R478 million was 43% down on last year’s R837 million due to lower profits and higher working capital. Increased costs of raw materials resulted in increased values of working capital and there were high finished goods stock levels at year-end. The net debt to equity ratio was however still at a healthy 6,6% (2011: 2,5%).

The group has entered into negotiations whereby half of its 50% interest in Nutec South Africa Pty Limited will be sold. The assets and liabilities of Nutec, which were previously proportionally consolidated, have been disclosed as held for sale.

The board has declared a final dividend of 336 cents, resulting in a total dividend out of the profit for the year of 672 cents (2011: 810 cents). The distribution will be supported by the strong balance sheet and underlying cash flow generation capabilities.

OPERATIONAL OVERVIEW

Reclassification impact

Cognisance should be taken of the re-assessment of the classification of sales to contract growers (see note 13), which has resulted in a restatement of the 2011 revenue. Although the 2011 profits were unaffected, the profit margin for the group increased to 9,3% (previously stated as 7,8%).

Poultry division

Revenue for the division was up by 12,5% to R5 915 million (2011: R5 258 million) on the back of higher volumes (up 4,7%) and pricing levels improving by 5,6%.

The higher volumes were due to an increase in the number of birds processed primarily as a result of the inclusion of the Earlybird Camperdown (Mountain Valley) volumes for the full year, together with an extra trading week included in the 2012 financial calendar (see note 12).

An increase in feed costs for the period (up 22,8%) impacted negatively on margins for the division which reflected a decrease to 2,5% (2011: 6,7%) with operating profit decreasing by 59,0% to R145 million (2011: R353 million).

The year under review was also impacted by high poultry stock levels in the industry, high levels of poultry imports (primarily from South America and more recently Europe) and depressed poultry selling prices. It was evident during the second half of the reporting period that the poultry industry lacked pricing power, as can be intimated from the extensive poultry promotional activity at prices below cost that was witnessed in order to manage stock levels. The increase in feed costs, together with above inflationary increases in energy costs, culminated in a margin squeeze and a significant deterioration in the profitability of Astral’s poultry division.

Feed division

Revenue for the division increased by 24,1% to R4 571 million (2011: R3 684 million) as a result of higher feed prices on the back of higher maize and soya pricing levels with stable sales volumes (up 0,1%), derived from an increase in the inter-group requirement for poultry feed offset by a decrease in external feed sales.

The operating profit increased by 11% to R313 million (2011: R282 million) with an operating margin at 6,9% (2011: 7,7%). The increase in the operating profit was mainly due to an increase in net margin realisations. The local feed operations reported an increase in profitability of 9,9%, whilst the division's African operations reported a healthy 21,9% increase in operating profit.

Services and Ventures

Revenue for the division decreased by 13% to R240,0 million (2011: R276,0 million) whilst operating profit decreased by 52% to R18,9 million (2011: R39,4 million). Excluded from the results for 2012 is the second half profit contribution from the East Balt SA operation, which was disposed of during the financial year. The provision for the Competition Commission settlement also impacted negatively on the profits of this division.

COMPETITION COMMISSION

An all-inclusive agreement with the Competition Commission has been negotiated to settle all previous and current matters and investigations, and is in the final stages of conclusion, with the settlement value of R17 million having been fully provided for in the first half of the financial period under review. This agreement remains to be confirmed as an order by the Competition Tribunal.

PROSPECTS

The business environment for the first half of 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 higher levels with limited ability to recover the increased production costs in a depressed consumer market, exacerbated by high levels of poultry imports and an imbalance in supply and demand. Expected higher grain and oilseed plantings and normal precipitation levels locally, could contribute to a reduction in feed input costs during the second half of the next financial reporting period.

DECLARATION OF ORDINARY DIVIDEND No. 24

The board has approved a final dividend of 336 cents per ordinary share (gross) in respect of the year ended 30 September 2012.

The dividend will be subject to 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 information is disclosed:

– The dividend has been declared out of income reserves;

– The local Dividend Tax is 15% (fifteen percent);

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

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

– The net local dividend is 285,6 cents per ordinary share for shareholders liable to pay Dividend Tax;

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

and

Astral Foods Limited's income tax reference number is 9125190711.

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

Last date to trade cum-dividend	Friday, 11 January 2013
Shares commence trading ex-dividend	Monday, 14 January 2013
Record date	Friday, 18 January 2013
Payment of dividend	Monday, 21 January 2013

Share certificates may not be dematerialised or rematerialised between Monday, 14 January 2013 and Friday,

18 January 2013, both days inclusive.

On behalf of the board

JJ Geldenhuys	CE Schutte
Chairman	Chief Executive Officer

Pretoria

7 November 2012

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*DD Ferreira (Financial Director), IS Fourie, *Dr OM Lukhele, M Macdonald, TCC Mampane, Dr N Tsengwa

(*Executive director)

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A copy of the financial statements will be available upon publication on the website, www.astralfoods.com or alternatively contact Maryna Eloff at the registered office or at maryna.eloff@astralfoods.com