2018

RCL FOODS LIMITED

("RCL FOODS")

GROUP FINANCIAL RESULTS AND CASH DIVIDEND DECLARATION

FOR THE YEAR ENDED
JUNE 2018

FINANCIAL HIGHLIGHTS

REVENUE
24 426,0
(R million)
⬇ 2.1%

EBITDA
2 046,0
(R million)
⬆ 17.1%

EBITDA MARGIN
8.4 (%)
⬆ 1.4ppts

HEADLINE EARNINGS
837,7
(R million)
⬆ 52.7%

HEADLINE EARNINGS
per share
96.8 (cents)
⬆ 52.4%

RETURN ON INVESTED CAPITAL
8.1 (%)
⬆ 3.3ppts

FINAL DIVIDEND
per share
25.0 (cents)
⬆ 25.0%

CASH GENERATED
by operations
1 784,6
(R million)
⬇ 22.2%

Key features

- Most Groceries brands performed exceptionally well
- Strong chicken recovery
- Sugar negatively impacted by dumped imports

INTRODUCTION

RCL FOODS' headline earnings for the year ended June 2018 increased 52.7% to R837,7 million (2017: R548,5 million). The improvement was driven by the recovery in the Chicken business unit, strong volume performances in the Dressings, Pet Food and Pies categories, lower interest costs and a tax credit related to an energy efficiency allowance in the Sugar business unit.

RCL FOODS measures its efficiency and effectiveness of capital allocation through return on invested capital (ROIC). ROIC for the period under review increased 3.3% to 8.1% (2017: 4.8%), largely driven by the improvement in underlying profitability. Significant focus is being placed on driving an improved return.

The 2018 financial year has presented significant challenges such as the impact of the Listeriosis crisis and Avian Influenza (AI) on the Chicken business unit, and the impact of dumped imports on the Sugar business unit. Whilst these external factors have constrained what would have been an even more encouraging year, they have forced us to think differently, resulting in a more resilient RCL FOODS.

Weak domestic macro variables persisted throughout the 2018 financial year, manifesting in low economic growth and continued high levels of unemployment, indicating that economic recovery will be gradual. The 1% VAT (value-added tax) increase and higher fuel prices in the second half of the financial year have further impacted on disposable income and affected consumer demand. Some welcome relief came to the business in the form of lower input costs, as the effects of the 2016/2017 drought dissipated. This translated into lower revenue growth, but had a positive impact on margins. Competition remained vigorous across all our markets.

STRATEGIC PROGRESS

An update on our strategic progress against our six strategic thrusts in the 2018 financial year is shown below:

Grow through strong brands

Our brand strategies and investment behind brands have strengthened our market share. Many of our brands have grown market share, and key brands such as Nola mayonnaise, Yum Yum peanut butter, Canine Cuisine in the Premium dog food category and Catmor in the cat food category have grown to become market leaders for the first time over a full 12-month period. Existing number one brands, such as Bobtail in the dog food category and Ouma Rusks, grew their market share further and entrenched their leading status. Pet food brands are a highlight and are well poised to grow market share further.

Partner with strategic customers

Understanding our customers' businesses and providing them with growth opportunities has been at the core of our success with strategic customers. We leveraged our capabilities to provide our foodservice customers with a growing and profitable portfolio of solutions, and we assisted in turning around the pie category in the 2018 financial year, contributing to a 10.3% volume growth in the Pies business unit. Our Logistics division successfully partnered with Pick n Pay to launch a dedicated distribution network for the retailer's entire frozen basket of products, including the specialised ice-cream category.

Extend our leading value chain

During the 2018 year, we continued to make good progress in optimising our value chain. Within our Logistics division, we centralised all logistics activities into a single Control Tower which is expected to improve customer service and efficiencies. Innovations in the Logistics fleet to transport super-frozen products (ice-cream) for Pick n Pay have positioned us well in becoming an operator of choice in multi-temperature supply chain solutions. Continuing our focus on IT as a key driver in unlocking business value, we implemented SAP in our Speciality and Animal Feed business units, we enhanced processes and enterprise resource planning (ERP) in Grocery, and we are in the process of consolidating our bakeries onto a single ERP instance. In our Consumer division, our new R136 million pet food plant in Randfontein came into production this year, enabling innovations that are helping grow our pet food category.

Expand into the rest of Africa

We maintain a low-risk strategy for our expansion into Africa, remaining cautious of economic and political risk. The future geographical focus has been narrowed to mainly SADC countries, and whilst potential acquisitions have been evaluated, none have been effected to date. Within the rest of Africa, we have restructured our activities to increase alignment between our export efforts and potential acquisitions. As we enter new regions, we are placing specific emphasis on pursuing route-to-market acquisitions before making investments in other assets. In Uganda, we made further infrastructure investments within our associate, HMH Rainbow Limited, by constructing additional chicken houses to grow capacity. We are currently in the process of finalising the acquisition of a 45.0% shareholding in L&A Distribution (L&A). L&A is an FMCG distribution operation based in Lusaka, Zambia and will provide us with re-entry into the Zambian market.

STRATEGIC PROGRESS (CONTINUED)

Inspire great people

Our ongoing efforts to accelerate a diverse workforce has earned us Gender Commission recognition as a leader in our sector, with a strong focus on women's development. Highlights in 2018 included a Women in Agriculture leadership development initiative and training programmes for women engineers, artisans and drivers. We have continued to build our talent pipeline and during the course of the last three years we have recruited 130 graduates as management trainees, facilitated 931 learnerships, apprenticeships and internships, and reached 43% of our managers with leadership development programmes. We have successfully rolled out a medical aid plan and health benefits to shop floor employees, with 1 080 people signing on during this financial year. Our relationships with unions are strong and promote collaboration in jointly tackling issues and creating awareness of the factors affecting our people and the industries we operate within.

Drive sustainable business

Our efforts to become more energy self-sufficient have resulted in our achievement of 25% of energy self-sufficiency through co-generation at our Sugar plants, waste-to-value energy production and solar power. The success of our Worcester waste-to-value plant has prompted us to invest in a similar waste-to-value plant in Rustenburg in 2019, where we expect to provide 65% and 50% respectively of the energy and water requirements of the total site. Irrigation projects in our Sugar business unit and the use of alternative water sources in Logistics also assisted us in our continued focus on reducing water consumption. On the social front, we established the DO MORE FOUNDATION as a separate non-profit organisation to enable participation of a broader group of external stakeholders in our CSI agenda which focuses on doing more for young children, easing hunger and supporting youth.

RCL FOODS FINANCIAL REVIEW

Income statement

RCL FOODS' revenue for the year ended June 2018 declined 2.1% to R24,4 billion (2017: R25,0 billion), largely due to the reduced consequential category (mainly IQF and other commodity lines) volumes in the Chicken business unit following its restructure in February 2017. EBITDA improved by 17.1% to R2 046,0 million from R1 747,6 million, with the associated margin improving 1.4% to 8.4%.

Rm	June 2018	*June 2018 margin %*	June 2017	*June 2017 margin %*	% change	*Margin change*
EBITDA	**2 046,0**	*8.4*	1 747,6	*7.0*	17.1	*1.4*
– Consumer	**985,2**	*7.7*	506,5	*3.8*	94.5	*3.9*
– Sugar & Milling	**869,0**	*6.4*	1 036,1	*7.2*	(16.1)	*(0.8)*
– Logistics	**204,3**	*10.3*	203,1	*10.0*	0.6	*0.3*
– Group	**(12,5)**		1,9			

Consumer's improved result was driven by a recovery in the Chicken business unit, and gains in key groceries categories. Sugar & Milling's decline was mainly due to pricing in the Sugar business unit and operational challenges in Baking. Logistics benefitted from new business and cost saving initiatives which offset the reduced Chicken business unit loads through the network, post the Chicken restructure in February 2017.

Tax

RCL FOODS' effective tax rate for the period, excluding joint ventures and associates was 21.2% (2017: 27.4%). The 2018 effective rate was reduced by the R64,0 million tax credit received in respect of a section 12L energy efficiency allowance and dormant farm sale profits which were taxed on a capital gains tax basis.

Non-controlling interests

The Group's non-controlling interests relate mainly to minority shareholding in the Sugar cane grower companies. As a result of price decreases in the local sugar market, the cane grower companies have posted consecutive losses with the minority shareholders share of losses added back in deriving the profit attributable to the equity holders.

Statement of financial position

Property, plant and equipment increased by R202,5 million with capital expenditure totalling R814,4 million for the year, which was partially offset by depreciation charges of R651,7 million.

Investment in associates increased by R13,1 million driven mainly by movements in Royal Swaziland Sugar Corporation Limited (RSSC). Included in the RSSC movement is an additional investment of R26,4 million made in December 2017 (which increased our shareholding by 1.8% to 29.2%), profits capitalised of R50,9 million, offset by dividends received of R59,8 million.

Biological assets were largely in line with the prior year. The lower sugar price as a result of the price decreases in the local market were offset by higher sugar volumes resulting in a fair value of the sugarcane plants that was in line with the 2017 balance.

Net working capital (including biological assets) has increased by R359,6 million over the comparative period and from 10.1% to 11.8% as a percentage of revenue. The increase was mainly due to higher inventory balances (up R260,1 million) and lower revenue as a result of the reduced consequential category chicken sales post the February 2017 restructure. The increase in inventory was mainly driven by a 26.5% increase in sugar tons on hand at year-end, driven by higher production volumes post the drought, with the stock to be realised in the 2019 financial year. Whilst there has been a 1.7% increase in net working capital as a percentage of revenue, we are comfortable that our investment remains appropriate.

Trade and other receivables and payables balances at June 2018 were both influenced by the timing of the year-end cut-off being over a weekend. This resulted in material receipts from customers and payments to suppliers being deferred to the week following year-end close. A total of R542,7 million receipts and R277,7 million payables were received/paid late, post the year-end cut-off. Trade and other receivables increased R801,7 million, whilst trade and other payables increased R718,1 million.

Cash on hand net of overdrafts, has increased from R1 053,8 million in 2017 to R1 263,4 million in 2018 mainly driven by the improvement in underlying profitability.

Assets held for sale relate mainly to the assets of the Prepared lines (which consists primarily of the deli snacks, sandwiches, salads, biltong and pizza lines) at the Speciality Bronkhorstspruit site, and includes goodwill of R130,0 million allocated to the Prepared lines from the Speciality cash-generating unit. Included in the 2017 assets and liabilities held for sale was the Tzaneen chicken operation, which was disposed of in the 2018 financial year.

Interest-bearing liabilities of R3 248,7 million are R56,5 million lower than last year (2017: R3 305,2 million), with the decrease due mainly to the replacement of loans granted to the Sugar cane grower companies from Akwandze, with internal funding. Included in the balance is the R2 852,0 million term-funded debt package of which R1 097,0 million is due in February 2019 and as a result has been reclassified as a short-term liability in the current period.

Cash flow and working capital

Cash generated by operations decreased to R1 784,6 million, a decrease of 22.2%. The prior year benefitted from a R827,5 million release of working capital off a high 2016 base. The working capital base has been stable in the current period, with a minimal change, despite rising sugar stock levels over year-end. As a result of the significant working capital release in 2017, the cash conversion ratio decreased to 87% from 131% in the prior year.

Included in the non-cash items of R512,7 million are add-backs of depreciation, amortisation and impairment charges of R775,6 million and non-cash IFRS 2 and BEE charges of R151,9 million. These were offset by deductions of positive fair value adjustments on biological assets within the Chicken and Sugar business units of R39,7 million and R330,1 million respectively. Within the Sugar business unit, the entire biological assets balance is capitalised using a fair value adjustment, with the realisation of the prior year's biological assets expensed through cost of sales and reflected under working capital movements (R334,3 million), resulting in a net R4,2 million decrease in Sugar biological assets for the year.

Investing activities spend has increased by R351,7 million. The prior year included the R289,5 million receipt on settlement of the Zam Chick and Zamhatch options. Included in the current year spend is capital expenditure (including intangibles) of R849,1 million (2017: R834,5 million), cash paid for the acquisition of Matzonox (Waste-to-Value operation) of R56,3 million and proceeds on disposal of fixed assets of R115,5 million (2017: R34,6 million).

Financing activities spend in the current year relates mainly to the repayment of the Akwandze loans granted to the community based joint venture cane growers. The prior year included the early repayment of the revolving credit facility of R498,0 million.

Capital expenditure

Capital expenditure (including intangibles) for the year ended June 2018 was R849,1 million (2017: R834,5 million).

Major spend items in the current period include:

- restoration of the damaged Pongola silo (R66,5 million);
- investments in the ERP systems across RCL FOODS (R49,2 million);
- investments in the Logistics fleet to accommodate the Pick n Pay frozen business (R28,5 million); and
- investments in plant and equipment related to the new pet food plant (R21,9 million).

An amount of R327,3 million (2017: R155,5 million) has been contracted and committed, but not spent, whilst a further R586,1 million (2017: R354,9 million) has been approved but not contracted. Major items included in these amounts relate to:

- investment in a waste-to-value plant at our Rustenburg Chicken site (R300,0 million);
- investments behind the ERP implementations across RCL FOODS (R60,9 million); and
- spend to move the remaining Bronkhorstspruit operations to other Speciality sites (R60,0 million).

Impairment assessment

We have assessed the need for impairments of assets and no further write-downs were required at June 2018.

REVIEW OF OPERATIONS

Consumer division

The Consumer division generated revenue of R12,8 billion (2017: R13,5 billion), down 5.4%. Despite the decrease in revenue, EBITDA increased by 94.5% to R985,2 million at a margin of 7.7% (2017: R506,5 million at a margin of 3.8%), benefitting from a R69,0 million improvement in the Groceries cluster and a R409,7 million improvement in the Chicken business unit.

Groceries (Grocery, Beverages, Pies and Speciality business units)

Groceries EBITDA rose 15.4% to R518,4 million at a margin of 9.0% (2017: R449,4 million at a margin of 8.2%). The result includes a R62,0 million provision for retrenchment costs in the Speciality business unit (related to the exit from the Prepared lines at the Bronkhorstspruit site) as well as gains on commodity procurement positions of R19,1 million (2017: R14,3 million loss) stemming from favourable sunflower and currency positions relative to the prior year. Excluding these two items, Groceries EBITDA would have increased 21.0% to R561,3 million at a margin of 9.7% (2017: R463,7 million at a margin of 8.5%).

The Groceries cluster had a solid year with excellent volume and market share growth. Apart from Sorghum and Beverages, all categories contributed strongly, benefitting from favourable commodity pricing and appropriate pricing strategies to enable growth in a subdued market. Despite a poor Beverages performance and a muted Speciality result, margins improved across the board, due to lower input costs, innovation, higher volumes and production savings.

The strong branded groceries performance was a highlight this year, given the deflationary environment, strong competition and no growth in the market. Our larger categories of Dressings, Pet Food and Pies managed market share gains and improved margins which is considered an excellent result, especially given the already high base in 2017. Key brands such as Nola mayonnaise, Yum Yum peanut butter, Canine Cuisine and Catmor have grown to become market leaders in their respective categories measured on a 12 month moving average basis to June 2018, whilst existing number one brands, such as Bobtail and Ouma Rusks, grew their market share further and entrenched their leading status.

An independent research company, Ask'd, reported in its June 2018 analysis that, even with the impact of the Listeriosis outbreak on the Chicken added-value range, the RCL FOODS Consumer basket growth was ahead of the Ask'd industry basket on the six- and 12-month rolling average basis. Volume growth over 12 months for the RCL FOODS Consumer total basket was 4.1%, relative to market growth of just 1.6%.

Pet Food volumes were a big driver following a strong innovation roll-out from the newly commissioned pet food facility. The facility has allowed us to introduce several varieties of products that were previously not available locally, including gravy-coated pellets, soft nuggets and pet food containing fresh meat. The offering is on par with the best internationally. The new products have not materially influenced the numbers for the financial year, given that the launch was in April 2018. Consumer acceptance to date of the new ranges has been very promising and we are optimistic about its prospects for the 2019 financial year.

Pies generated strong volume growth due to the successful execution of a range of initiatives implemented. In addition, effective cost savings initiatives have increased margins pleasingly. The business is rapidly gaining traction in the market and, together with what is now regarded as an appropriate cost structure, is well down the track in terms of improved performance.

Speciality's performance was disappointing, with both volume declines and under-recovery in price, especially in the Prepared lines. We are working closely with customers to restore the profitability and performance of this business unit. We have entered discussions with various stakeholders aimed at re-organising our manufacturing capabilities to allow for a more focused and sustainable approach going forward. We have decided, in consultation with our customers, to focus on our expertise to drive growth in the Bakery categories and to exit the Prepared lines. The restructuring will result in a disposal of the assets related to the Prepared lines in the 2019 financial year and move of the remaining operations at the Bronkhorstspruit facility to other Speciality sites. By re-focusing the manufacturing capabilities, the smaller business will deliver a better return and be a more sustainable business going forward. A retrenchment provision of R62,0 million was raised in the current year.

Beverages remains a challenge, with profits down mainly due to volume pressure and lower prices arising from strong competition. Whilst new launches have been driving consumer interest in our brands, strong competition and an unfavourable mix weighted towards bigger packs have depressed margins. The business is receiving significant attention and a comprehensive plan of differentiation and innovation has been developed to extract value from our unique Ultra-High Temperature (UHT) capability.

Chicken

Chicken's EBITDA for the year improved 717.5% to R466,8 million at a margin of 6.7% (2017: R57,1 million at a margin of 0.7%). Chicken benefitted from the revised business model, improved pricing in the consequential chicken category, a decrease in input costs and a R101,4 million profit on sale of dormant farms resulting from the February 2017 Chicken restructure. The improvement in Chicken's underlying profitability was particularly pleasing considering weak consumer demand, the negative impact of AI and, significantly, the Listeriosis outbreak which had an estimated negative impact of R158,2 million for the period, of which R78,2 million related to once-off costs.

The changed Chicken business model has performed well and is on track to deliver what it set out to achieve – a more consistent profitable business with much less reliance on commodity cycle pricing. The changes have been significant, with production reduced from 4,8 million birds to 3,4 million birds per week and a substantial proportion of low margin consequential chicken being removed from the system as a result. Chicken's average margins have also improved since the implementation of the revised model. These changes, together with the related positive impact on consequential category pricing and lower input feed costs, have assisted to negate to some extent two major external impacts over the past year, those being AI and Listeriosis. It is worth noting that dumped imports remain a significant component of and issue for the local poultry market.

RCL FOODS lost approximately 5% of its breeding stock to AI in the winter months, with a total financial impact estimated at R69 million. While AI continues to pose a risk for all producers, we have mitigated future risk to volumes by further increasing bio-security and carrying surplus flocks.

REVIEW OF OPERATIONS (CONTINUED)

The outbreak of Listeriosis in South Africa, which tragically resulted in more than 180 deaths earlier in 2018, was a major crisis for the local food industry and our country, and it remains so. RCL FOODS was drawn into the crisis amidst widespread public panic, uncertainty regarding the regulatory framework and pressure on government to identify the source of the outbreak. No trace of the ST6 "outbreak strain" of listeria was present at our Wolwehoek plant and since being cleared, we have been working to restore consumer trust both in our Rainbow brand and the chilled processed meats category. Post the crisis we have introduced a variety of initiatives to restore confidence in the Rainbow brand and the chilled processed meats category. Our Quality and Food Safety team together with our Processing team have implemented a raft of additional safety measures at our production facilities over and above the international food safety standards already followed. We are working closely with government and key experts to ensure that appropriate regulations are put in place to safeguard consumers going forward. The estimated financial impact of the Listeriosis crisis of R158,2 million, is attributable to once-off costs of R78,2 million (net of insurance recoveries of R9,3 million) associated with the recall of our products and restoration of the Rainbow brand, with the remaining R80,0 million estimated as lost contribution. We are continuing to engage with insurers regarding our assets and business interruption policies response to the financial losses suffered due to the outbreak.

Sugar & Milling division

The Sugar & Milling division generated revenue of R13,6 billion (2017: R14,5 billion), down 6.2%, and an EBITDA of R869,0 million at a margin of 6.4% (2017: R1 036,1 million at a margin of 7.2%), a decline of 16.1%. The decline in profitability was mainly attributable to lower prices and adverse channel mix in Sugar, as well as operational challenges at Baking.

Sugar

Despite a 6.3% increase in revenue, on the back of higher volumes post the drought, Sugar's EBITDA declined 44.0% to R284,1 million at a margin of 5.2% (2017: R507,0 million at a margin of 9.9%) driven by two price decreases in the local market and lower margins. The prior year result benefitted from the R138,1 million insurance receipt related to the Pongola silo, excluding which the EBITDA decline moderates to 23.0%. The Sugar operations experienced challenging market conditions in the period under review. Pleasing increases in production (volumes up 35.8% to 594 850 tons) and improved efficiencies were more than offset by low international prices, a relatively strong currency, and a significant volume of dumped imports. The abnormally high level of imports was initially triggered by a period without appropriate import tariff protection, though even after being rectified, the new tariff remains insufficient to stem imports. The imports are mainly due to surplus global stocks, as well as the effective subsidisation of sugar industries in competing world markets which enables dumping at reduced prices in South Africa. Locally, the need to establish import parity to quell imports and excess supply drove significant price decreases of more than 20% during the period. Imports displaced local production volumes forcing a change in the sales channel mix towards higher exports at lower international prices and hence margins.

Higher sugar yields and commensurate improved performance of the factories bode well for a profit recovery, should sugar prices and sales mix normalise. Adequate water supplies will also ensure that the recovery in sugar production is sustained into the next season. A recent acquisition in the sweetener category will give us the ability to extend our product range into the expanding low-carb and low-calorie segment.

World sugar surpluses are expected to continue for the foreseeable future, with significant potential overhang of stock from India, Europe and Brazil. In South Africa after significant interaction with government, the Dollar-Based Reference Price, a component of the existing local market tariff, was updated in August 2018 (post year-end) which will provide the local market with additional protection from imports. A significant amount of imported stocks have built up during the period of inadequate protection, which still needs to work its way through the local market before any improvement in profitability can be expected in the Sugar business unit. There is a strong focus within Sugar to ensure the continued sustainability of the business and the industry. In addition, alternative products and uses are being considered, with a simultaneous focus on improving productivity and efficiency to reduce costs further.

Animal Feed

Animal Feed remains a stable business with sound results. EBITDA of R319,5 million at a margin of 7.0% (2017: R245,4 million at a margin of 4.3%) increased by 30.2% driven by gains on our commodity raw material procurement positions during the year of R61,7 million (2017: R23,0 million loss). The R84,7 million improvement over the prior year was a result of gains on maize and currency positions due to higher maize prices and the weakening of the Rand relative to our positions. Excluding the impact of the above, Animal Feed's EBITDA declined 3.9% to R257,8 million at a margin of 5.6% (2017: R268,4 million at a margin of 4.7%).

This performance should be viewed against the substantial reduction in internal volumes due to the revised Chicken model and the temporary loss of key bulk external customers. We are pleased that these customers have since returned because of our superior product performance. A relentless focus on reducing costs as well as more favourable commodity input costs, assisted to partially counter the lower volumes.

The merger of Molatek and Epol created one of South Africa's largest animal feed businesses. Post the merger, Animal Feed is a well settled business with a diversified product basket. There is a continuous focus on developing tailormade feed solutions to attract new customers, improve profitability and strengthen the brands. A clear strategy is in place to diversify and grow more animal feed categories and expand into new markets and geographies. A recent post year-end acquisition of a horse and game feed business, Driehoek Voere, will complement the existing product range. The business has a single mill in Vaalwater, Limpopo, and produces high roughage animal feed for a variety of domestic and wild animals under the well-known Driehoek, Equus, Lotmix and Winterveld brands.

Millbake (Milling and Baking)

The Millbake business unit generated an EBITDA of R265,4 million at a margin of 7.3% (2017: R283.7 million at a margin of 7.5%), down 6.5%. The business had a leadership change during this financial year and has set a clear recovery plan going forward.

The South African milling industry continues to be challenged by overcapacity and margins remain tight as a result. Our well-regarded brand, as well as targeted interventions, delivered increased Milling volumes, which also benefitted from lower commodity prices. However, we continue to run below optimal capacity and the focus remains on increasing volumes to improve efficiencies.

Baking's results were disappointing. Operational challenges including prolonged strike action as well as competitor pressure impacted volumes and margins. Rural bakeries have performed well while urban bakeries experienced strong competition. Quality issues have been resolved and efficiency and productivity issues are being fixed. More work needs to be done to position this business unit for the right level of growth and profitability.

We remain committed to the category and are evaluating options to grow volumes which will better utilise the excess capacity within Milling.

Logistics division

Logistics continued to trade in a tough environment over the past year, with substantially reduced internal volumes, specifically due to the Chicken restructure, which was further impacted by the Listeriosis outbreak. Foodservice's revenue has grown, with improved results across customer groups.

Gains in new business, as well as a concerted effort to right-size the business by taking out costs, resulted in a financial performance that is ahead of expectation and in line with the prior year. Logistics generated revenue of R2,0 billion, marginally down on the prior year, and EBITDA of R204,3 million at a margin of 10.3% (2017: R203.1 million at a margin of 10.0%), an improvement of 0.6%.

A key long-term contract with Pick n Pay was signed in the latter half of 2018 for their frozen category, including ice-cream. This assisted to partially offset the decline in Chicken volumes, as well as enhanced our capabilities to include super-frozen solutions going forward.

Cost containment initiatives, which resulted in meaningful cost reductions, were implemented spanning network redesign, hub and transport optimisation, as well as an investment in a consolidated supply chain Control Tower aimed at further improving customer service and operational efficiencies.

Logistics is well positioned to offer customers a multi-temperature route-to-market supply chain solution, including chilled, frozen and super-frozen temperature solutions. Further new business and strategic cost right-sizing opportunities are being pursued, to further mitigate the revised Chicken business model volume impact in the 2019 financial year.

Equity accounted investments

Associates

Royal Swaziland Sugar Corporation (RSSC) (Swaziland)

RCL FOODS' Sugar business unit increased its shareholding in RSSC from 27.4% to 29.2% in the 2018 financial year. RSSC's results for the year ended June 2018 were down due to conditions similar to those in the Sugar business unit. The after-tax contribution was R50,9 million (2017: R110,6 million). Imports negatively impacted on local market sales, while the sugar price decrease also significantly impacted the fair value adjustment on biological assets, with our share of the fair value adjustment being a negative R15,2 million in 2018 (2017: R30,7 million fair value gain).

HMH Rainbow Limited (HMH) (Uganda)

RCL FOODS has a 33.5% shareholding in HMH Rainbow Limited. HMH is a poultry producer operating a feed mill, broiler farms and processing plant in Uganda. The business delivered an improved performance over the period, with higher volumes stemming from the investment in additional chicken houses and increased exports to Kenya. Its after-tax profit contribution was R0,9 million (2017: R1,1 million loss).

Joint ventures

Akwandze Agricultural Finance Proprietary Limited (Akwandze) and Mananga Sugar Packers Proprietary Limited (Mananga) (Swaziland)

Sugar & Milling's Akwandze and Mananga investments contributed a combined after-tax profit of R16,6 million for the 12 months to June 2018 (2017: R38,6 million), with the decline driven by the prevailing conditions in the sugar market.

Senn Foods Logistics (Senn) (Botswana)

RCL FOODS has a joint venture with Senn in Botswana. Senn delivered another sound performance, with good growth in Nando's, new business from Famous Brands coupled with successful cost containment efforts in transport costs. Its after-tax profit contribution was R11,7 million (2017: R9.9 million). Senn has delivered consistent performance since the acquisition in 2014.

CASH DIVIDEND DECLARATION

The directors have resolved to declare a final gross cash dividend (number 87) of 25.0 cents per share bringing the total dividend declared for the year ended June 2018 to 40.0 cents (2017: 30.0 cents).

The dividend has been declared from income reserves. Dividend tax, at the rate of 20%, will amount to 5.0 cents per share and consequently shareholders, who are not exempt from dividend tax, will receive a net dividend amount of 20.0 cents per share. The issued share capital as at June 2018 is 938 086 609. The company's income tax reference number is 9950019712.

The salient dates of the declaration and payment of the final dividend are as follows:

Last date to trade ordinary shares *cum* dividend	Tuesday, 16 October 2018
Ordinary shares trade *ex*-dividend	Wednesday, 17 October 2018
Record date	Friday, 19 October 2018
Payment date	Monday, 22 October 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 17 October 2018 and Friday, 19 October 2018 (both dates inclusive).

PROSPECTS

Whilst we are expecting the recent modest recovery in market volumes to continue, we acknowledge that trading conditions will continue to be challenging and the fight for market share will remain fierce.

The Consumer division will continue to drive its groceries brands and keep the momentum in market share growth through strong innovation and brand investment. Speciality is expected to become a smaller but more sustainable business. The revised Chicken model has delivered per expectation and substantial focus will be centred around restoring consumer confidence in the Rainbow brand following the Listeriosis challenge.

Government have responded to industry concerns in the local sugar market by implementing a revised Dollar-Based Reference Price, a component of the existing tariff. The positive impact of the tariff will only become evident once the excessive import stocks that have built up prior to the increased tariff being implemented have been sold through the market and the supply/demand balance restored in the local market. The Sugar business unit will continue to focus on ways to reduce costs as well as investigate alternative applications to ensure the business' long-term sustainability. We expect volume recovery at Milling to continue and for initiatives implemented at Baking to start bearing fruit.

Logistics will continue to seek new business and reduce costs. The various innovations in the business are positioning it favourably to recover from the volumes lost through Chicken's restructure.

Our transformation into 'ONE RCL FOODS' and the shared vision and commitment it has brought across all our businesses, has presented a host of synergies and opportunities that have exceeded our expectations. It has given us a solid platform from which to create value on our journey to building a food business with brands that matter.

BASIS OF PREPARATION

The summarised consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the information required by IAS 34 (Interim Financial Reporting), IFRIC interpretations, SAICA financial reporting guides and circulars and in compliance with the Companies Act of South Africa and the Listing Requirements of the JSE Limited, under the supervision of the Chief Financial Officer, Robert Field CA(SA). The accounting policies comply with IFRS and are consistent with those applied in the previous year, except for the adoption of the disclosure amendments to IAS 7 effective 3 July 2017, which have had no effect on these results. These results are extracted from audited information, but are not themselves audited. The consolidated financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The audited consolidated financial statements and the auditor's report thereon are available for inspection at the Company's registered office and shareholders are advised that, in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying financial information. The auditor's report does not necessarily report on all the information contained in this announcement. The directors take full responsibility for the preparation of these results and confirm that the financial information has been correctly extracted from the underlying consolidated financial statements. The Integrated Annual Report will be posted to shareholders and made available on RCL FOODS' website on or before 28 September 2018.

RCL FOODS has reported on the retail calendar of trading weeks which treats each financial year as an exact 52-week period, incorporating trade from Monday to Sunday each week. This treatment effectively results in the loss of a day (or two in a leap year) per calendar year. These days are brought to account approximately every six years by including a 53rd week. The results for the year under review are for the period ended 1 July 2018, a 364-day period compared to a 367-day period in the previous financial year.

For and on behalf of the Board

JJ Durand
Non-executive Chairman

M Dally
Chief Executive Officer

Durban
28 August 2018

Directors: JJ Durand (Non-executive Chairman), M Dally (CEO)*, HJ Carse, RH Field*, CJ Hess, PR Louw, NP Mageza, DTV Msibi, MM Nhlanhla, RV Smither, GM Steyn, GC Zondi.

** Executive directors*

Company secretary: JMJ Maher

Registration number: 1966/004972/06

JSE share code: RCL

ISIN: ZAE000179438

Registered office: RCL Foods Limited, Ten The Boulevard, Westway Office Park, Westville, 3629

Transfer secretaries: Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196

Auditors: PricewaterhouseCoopers Inc.

Sponsor: Rand Merchant Bank (a division of FirstRand Bank Limited)

Bankers: Absa Bank Limited, First National Bank Limited, Standard Bank Limited, Investec Bank Limited and HSBC Bank plc

Website: www.rclfoods.com

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at

	1 July 2018 R'000	2 July 2017 R'000
ASSETS		
Non-current assets		
Property, plant and equipment	**5 922 829**	5 720 285
Intangible assets	**2 162 828**	2 222 912
Investment in joint ventures	**248 570**	227 366
Investment in associates	**526 437**	513 323
Deferred income tax asset	**28 448**	6 876
Loans receivable	**35 920**	1 555
Trade and other receivables	**58 010**	12 788
Goodwill	**2 533 162**	2 658 493
	11 516 204	11 363 598
Current assets		
Inventories	**2 926 748**	2 666 622
Biological assets	**807 331**	791 469
Trade and other receivables	**4 254 014**	3 452 331
Derivative financial instruments	**5 031**	1 339
Tax receivable	**32 953**	70 410
Loans receivable	**29 072**	17 200
Cash and cash equivalents	**1 263 364**	1 056 660
	9 318 513	8 056 031
Assets of disposal group classified as held for sale	**156 580**	88 685
Total assets	**20 991 297**	19 508 314
EQUITY		
Capital and reserves	**11 179 703**	10 386 753
LIABILITIES		
Non-current liabilities		
Deferred income	**22**	141
Interest-bearing liabilities	**1 965 983**	3 078 822
Deferred income tax liabilities	**1 253 584**	1 248 056
Retirement benefit obligations	**135 072**	136 668
Trade and other payables	**6 410**	3 157
	3 361 071	4 466 844
Current liabilities		
Trade and other payables	**5 116 615**	4 398 538
Deferred income	**7 835**	8 338
Interest-bearing liabilities	**1 282 673**	226 383
Derivative financial instruments	**31 056**	12 995
Current income tax liabilities	**12 344**	4 190
Bank overdraft		2 878
	6 450 523	4 653 322
Liabilities of disposal group classified as held for sale		1 395
Total liabilities	**9 811 594**	9 121 561
Total equity and liabilities	**20 991 297**	19 508 314

CONSOLIDATED INCOME STATEMENT

	June 2018 R'000	June 2017 R'000
Revenue	**24 425 996**	24 950 655
Operating profit before depreciation, amortisation and impairment (EBITDA)	**2 045 984**	1 747 633
Depreciation, amortisation and impairment	**(775 640)**	(971 125)
Operating profit	**1 270 344**	776 508
Finance costs	**(315 104)**	(373 741)
Finance income	**62 624**	40 999
Share of profits of joint ventures	**28 268**	48 577
Share of profits of associates	**51 834**	109 516
Profit before tax	**1 097 966**	601 859
Income tax expense	**(219 589)**	(125 552)
Profit for the period	**878 377**	476 307
Attributable to:		
Equity holders of the company	**922 439**	515 657
Non-controlling interests	**(44 062)**	(39 350)
HEADLINE EARNINGS		
Profit for the period attributable to equity holders of the company	**922 439**	515 657
Profit on disposal of property, plant and equipment	**(77 583)**	(3 423)
Gain on disposal of subisidiary		(4 512)
Insurance proceeds	**(11 931)**	(87 735)
Impairments	**6 107**	128 554
Insurance proceeds included in equity accounted earnings of associates	**(2 344)**	
Loss on disposal of property, plant and equipment included in equity accounted earnings of associates	**1 047**	
Headline earnings	**837 735**	548 541
	Cents	Cents
Earnings per share attributable to equity holders of the company		
Basic earnings per share	**106.6**	59.7
Basic earnings per share – diluted	**104.1**	59.2
Headline earnings per share	**96.8**	63.5
Headline earnings per share – diluted	**94.5**	63.0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	June 2018 R'000	June 2017 R'000
Profit for the period	**878 377**	476 307
Other comprehensive income		
Items that will not be reclassified to profit and loss		
Remeasurement of retirement medical obligations – net of tax	**9 041**	7 713
Share of associates other comprehensive income	**(664)**	(2 090)
Items that may subsequently be reclassified to profit and loss		
Cash flow hedges - net of tax	**(467)**	(9 194)
Currency translation differences	**(10 011)**	(11 651)
Other comprehensive income for the period – net of tax	**(2 101)**	(15 222)
Total comprehensive income for the period	**876 276**	461 085
Total comprehensive income for the period attributable to:		
Equity holders of the company	**920 338**	500 435
Non-controlling interests	**(44 062)**	(39 350)
	876 276	461 085

CONSOLIDATED CASH FLOW INFORMATION

	June 2018 R'000	June 2017 R'000
Operating profit	**1 270 344**	776 508
Non-cash items	**512 686**	689 669
Operating profit before working capital requirements	**1 783 030**	1 466 177
Working capital requirements	**1 587**	827 506
Cash generated by operations	**1 784 617**	2 293 683
Net finance cost	**(257 901)**	(325 081)
Tax paid	**(180 351)**	(262 030)
Cash available from operating activities	**1 346 365**	1 706 572
Dividends received	**62 394**	93 522
Dividends paid	**(304 610)**	(217 147)
Cash outflows from investing activities	**(838 018)**	(486 322)
Cash outflows from financing activities	**(56 549)**	(406 043)
Net movement in cash and cash equivalents	**209 582**	690 582
Cash and cash equivalents at the beginning of the period	**1 053 782**	363 200
Cash and cash equivalents at the end of the period	**1 263 364**	1 053 782

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated capital R'000	Other reserves R'000	Common control reserve R'000	Share-based payments reserve R'000	Retained earnings R'000	Controlling interest total R'000	Non-controlling interest R'000	Total R'000
Balance at 1 July 2016	10 023 804	25 517	(1 919 832)	434 863	1 403 502	9 967 854	78 402	10 046 256
Profit/(loss) for the period					515 657	515 657	(39 350)	476 307
Other comprehensive income for the period		(20 845)			5 623	(15 222)		(15 222)
Ordinary dividend paid					(216 079)	(216 079)	(1 068)	(217 147)
BEE share-based payments charge				17 600		17 600		17 600
Employee share scheme:								
Proceeds from shares issued	17 886					17 886		17 886
Value of employee services				78 959		78 959		78 959
Exercise of employee share options				(17 886)		(17 886)		(17 886)
Balance at 2 July 2017	**10 041 690**	**4 672**	**(1 919 832)**	**513 536**	**1 708 703**	**10 348 769**	**37 984**	**10 386 753**
Profit/(loss) for the period					**922 439**	**922 439**	**(44 062)**	**878 377**
Other comprehensive income for the period		**(10 478)**			**8 377**	**(2 101)**		**(2 101)**
Ordinary dividend paid					**(303 068)**	**(303 068)**	**(1 542)**	**(304 610)**
Acquisition of subsidiary							**56 349**	**56 349**
BEE share-based payments charge				**17 600**		**17 600**		**17 600**
Employee share scheme:								
Proceeds from shares issued	**45 551**					**45 551**		**45 551**
Value of employee services				**134 330**		**134 330**		**134 330**
Equity component of deferred tax on share-based payments				**13 005**		**13 005**		**13 005**
Exercise of employee share options				**(45 551)**		**(45 551)**		**(45 551)**
Balance at 1 July 2018	**10 087 241**	**(5 806)**	**(1 919 832)**	**632 920**	**2 336 451**	**11 130 974**	**48 729**	**11 179 703**

SUPPLEMENTARY INFORMATION

		June 2018 R'000	June 2017 R'000
Capital expenditure contracted and committed		**327 259**	155 492
Capital expenditure approved but not contracted		**586 140**	354 869
STATISTICS			
Statutory ordinary shares in issue (includes BEE shares)	(000's)	**938 087**	935 566
Ordinary shares in issue for accounting purposes	(000's)	**867 328**	864 807
Weighted average ordinary shares in issue	(000's)	**865 649**	864 167
Diluted weighted average ordinary shares in issue	(000's)	**886 486**	870 488
Net asset value per share	(cents)	**1 289.0**	1 201.0
Ordinary dividends per share:			
Interim dividend declared	(cents)	**15.0**	10.0
Final dividend declared	(cents)	**25.0**	20.0
Total dividends	(cents)	**40.0**	30.0

SEGMENTAL ANALYSIS

	June 2018 R'000	June 2017 R'000
Revenue	**24 425 996**	24 950 655
Consumer	**12 752 874**	13 474 031
Sugar & Milling	**13 566 850**	14 467 407
Logistics	**1 979 958**	2 033 102
Sales between segments:		
Consumer to Sugar & Milling	**(136 392)**	(230 274)
Sugar & Milling to Consumer	**(2 727 031)**	(3 713 778)
Logistics to Consumer	**(977 755)**	(1 050 894)
Logistics to Sugar & Milling	**(32 508)**	(28 939)
Operating profit before depreciation, amortisation and impairment (EBITDA)		
Consumer	**985 205**	506 485
Sugar & Milling	**869 037**	1 036 072
Logistics	**204 341**	203 117
Unallocated group costs	**(12 599)**	1 959
Operating profit before depreciation, amortisation and impairment (EBITDA)	**2 045 984**	1 747 633
Depreciation, amortisation and impairment	**(775 640)**	(971 125)
Operating profit/(loss)		
Consumer	**654 055**	(7 404)
Sugar & Milling	**521 204**	669 184
Logistics	**131 054**	121 776
Unallocated group costs	**(35 969)**	(7 048)
Operating profit	**1 270 344**	776 508
Finance costs	**(315 104)**	(373 741)
Finance income	**62 624**	40 999
Share of profits of joint ventures		
Sugar & Milling	**16 576**	38 628
Logistics	**11 692**	9 949
Share of profits of joint ventures	**28 268**	48 577
Share of profits/(loss) of associates		
Sugar & Milling	**50 889**	110 590
Ugandan Operation	**945**	(1 074)
Share of profits of associates	**51 834**	109 516
Profit before tax	**1 097 966**	601 859

	1 July 2018 R'000	2 July 2017 R'000
ASSETS		
Consumer	**8 426 106**	8 363 089
Sugar & Milling	**8 918 780**	8 208 674
Logistics	**3 748 581**	3 307 004
Unallocated Group assets*	**1 062 404**	833 157
Ugandan operation	**53 535**	58 146
Set-off of inter-segment balances	**(1 218 109)**	(1 261 756)
Total per statement of financial position	**20 991 297**	19 508 314
LIABILITIES		
Consumer	**2 783 814**	2 693 566
Sugar & Milling	**2 788 927**	2 484 827
Logistics	**2 499 840**	2 235 929
Unallocated Group liabilities*	**2 957 122**	2 968 995
Set-off of inter-segment balances	**(1 218 109)**	(1 261 756)
Total per statement of financial position	**9 811 594**	9 121 561

** Includes the assets and liabilities of the Group treasury company, Waste-to-Value operation and consolidation entries.*