2019

RCL FOODS LIMITED (RCL FOODS)

GROUP FINANCIAL RESULTS AND CASH DIVIDEND DECLARATION

FOR THE YEAR ENDED JUNE 2019

FINANCIAL HEADLINES

FOR THE YEAR ENDED JUNE 2019

REVENUE
R25,9 billion
↑ 5.5%

EBITDA
R1 525,7 million
↓ 25.4%

EBITDA EX SUGAR & CHICKEN
R1 395,9 million
↑ 7.8%

HEADLINE EARNINGS
R329,5 million
↓ 60.7%

HEADLINE EARNINGS PER SHARE
37,9 cents
↓ 60.8%

RETURN ON INVESTED CAPITAL
(0.8%)
↓ 8.9 ppts

CASH GENERATED BY OPERATIONS
R796,7 million
↓ 55.4%

TOTAL DIVIDEND OF
25,0 cents
PER SHARE DECLARED FOR THE YEAR

Key features

- Groceries delivered another strong result
- Chicken negatively impacted by an oversupplied retail poultry market and higher feed input costs
- Declining local market demand for Sugar drives adverse sales mix resulting in a significantly lower result
- R761,9 million impairment of assets in Sugar due to weak local market demand outlook
- Millbake continues to improve
- Higher costs erode margins in Animal Feed and Logistics
- Cash declines due to lower profits, higher working capital investment and debt reduction

INTRODUCTION

RCL FOODS' headline earnings for the year ended June 2019 decreased by 60.7% to R329,5 million (2018: R837,7 million). The decline was largely attributable to the adverse performance of the Sugar and Chicken business units.

The South African economic environment remains subdued, with low to negative GDP growth being reported over the year and rising unemployment rates. Consumers remain under pressure with disposable incomes further impacted by fuel and electricity cost increases during the period. Fierce competition in local markets resulted in aggressive pricing strategies to retain and gain market share, often at the expense of margin.

The local sugar and poultry industries are under significant pressure, impacted by oversupply and declining local market demand due to muted consumer spending and, specifically with respect to sugar, the recently implemented Health Promotion Levy (sugar tax). The supply/demand imbalance resulted in low selling prices being realised in both our Sugar and Chicken business units, inhibiting the recovery of cost push factors thereby severely reducing margins. In the absence of an appropriate tariff, dumped chicken imports remained high, with sugar imports having stabilised following the implementation of the revised tariff in August 2018.

Sugar's profitability for the year declined significantly on the back of the challenges currently being experienced in the local sugar market. The decline in profitability, which stemmed from legislative changes (sugar tax) and industry wide issues, such as low world prices resulting from the global oversupply of sugar and high Sugar industry association costs, led the Group to perform a detailed impairment review on the Sugar cash-generating unit (CGU). Based on the current outlook of a permanent reduction in local market demand, a higher proportion of our future production is expected to be exported at significantly lower margins. An impairment of R761,9 million (R552,5 million post-tax) has been recorded in the current financial year against non-current assets and R51,8 million in deferred tax assets were not recognised in the sugar cane-grower companies.

Despite the challenging market conditions, Groceries performed strongly, improving volumes and margins across a broad spectrum of categories. The performance of our Millbake business unit continues to improve, whilst profitability at Animal Feed was hampered by rising commodity costs and an extremely competitive trading environment. Logistics has made substantial investments during the period, specifically for the take-on of the frozen business of Pick n Pay and the spreads business of Siqalo Foods Proprietary Limited (Siqalo Foods), a 100% owned subsidiary of Remgro Limited.

It is in tough times such as these that we recognise the importance of a diversified portfolio of scale with brands that are well established and which continue to generate healthy cash flows despite the depressed economic backdrop. The excellent performance within the RCL FOODS added-value categories in the current period served to partially offset the adverse trading conditions in our core categories.

Containing overheads remains a key focus area and good progress has been made against cost savings initiatives across all business units.

RCL FOODS measures its efficiency and effectiveness of capital allocation through return on invested capital (ROIC). ROIC for 2019 was poor at a negative 0.8% (2018: 8.1%). The decline in ROIC was largely attributable to the lower profits (including the Sugar impairment). Appropriate capital investment and resource allocation over the medium term between our added-value and core categories remains a key focus area given the issues currently being experienced in the sugar and chicken industries.

STRATEGIC PROGRESS

RCL FOODS' strategic ambition is aimed at growing its portfolio of strong brands in added-value categories and maximising its core categories. We have continued to pursue a variety of initiatives to achieve this ambition and have made some progress in positioning RCL FOODS for a more profitable and sustainable quality of earnings.

This is demonstrated in the pleasing growth of our Groceries portfolio ahead of the market in the current year. Our basket of leading brands have become further entrenched, continued to grow market share and delivered a strong result. This is due to our implementation of solid brand strategies and consistent investment and innovation behind our brands, coupled with product and category extensions that have broadened and deepened our market reach. We continued to leverage our deep understanding of consumers' needs, our broad product portfolio and our integrated customer and marketing capability to deliver relevant and innovative solutions whilst also strengthening our strategic partnerships.

Our core value of "seeing and doing things differently" has become a strategic imperative in dealing with the current headwinds facing the Sugar and Chicken business units. These business units remain under significant pressure having to compete with dumped imports, as demonstrated in the results for the financial year. Accordingly, we are accelerating engagements with the appropriate industry bodies and government to find a sustainable way forward for these key operations that contribute strongly to South African employment. In parallel, we are amplifying our internal focus and determination to return these business units to acceptable profitability.

The sugar industry is currently facing unprecedented pressure at a global level, with even large-scale multi-national dedicated sugar businesses demonstrating a significant decline in profitability in the current year. A global oversupply, driven by subsidised production in many sugar-producing countries and decreasing demand due to consumers' changing health perceptions, has had a pervasive impact on the industry. In South Africa, the pressure was amplified by a period of unprotected dumped imports in the first half of the financial year, as well as the implementation of the Health Promotion Levy (sugar tax) which resulted in a significant decline in local demand. The chicken industry also remains in a state of oversupply, which translates into an inability to recover rising feed costs in a market skewed by dumped imports.

Our strategy of maintaining our leading low-cost production capability in Sugar and driving efficiency in Chicken will continue. We will further accelerate our ambition of diversifying our income earning opportunities in this space with downstream innovation and forward value integration opportunities. Furthermore, we will continue to drive our transformation agenda through both the Sugar and Chicken business units. In Sugar, we are involved in large-scale community-based cane growing joint ventures, and in the provision of market access, farming support and development finance to 1 200 small-scale growers. Through long-term partnerships with emerging growers, 1,8 million tons of sugarcane was delivered by small-scale growers, joint ventures and land reform beneficiaries to our mills in the current financial year, representing 32% of our total cane supply. In Chicken, we are well placed to rapidly expand our broad-based transformation contribution via our contract growing operations and have made it a strategic imperative to deliver on this objective. Given the challenges faced within both industries, robust engagement with government and other key stakeholders is critical to find long-term solutions to these challenges. Our ambition is to keep improving our transformation models to make them more sustainable in this environment. If successful, we believe that these models can be used to further drive the transformation agenda in other sectors of the economy. What remains clear is that industries exposed to dumped imports remain under severe pressure, putting at risk a large number of jobs as well as the many land transformation initiatives that have been implemented over the past several years. Of particular concern to our economy is the impact on the estimated 20 000 small-scale growers who rely solely on sugarcane for their livelihoods.

On the more positive side, a key achievement in our recent journey as RCL FOODS has been the take-on of the shared services responsibility for the Spreads business of Siqalo Foods. Remgro acquired the Spreads business from Unilever in July 2018. Utilising the capabilities and competencies acquired through our own value chain transformation, we successfully transitioned Siqalo Foods onto the RCL FOODS shared services platform and implemented SAP as their enterprise resource planning (ERP) system on 4 March 2019. The project is testament to the success of our initiatives over the past five years, through which we created a single synergised ONE RCL FOODS platform with integrated structures, systems and customer and shared service capability. It has enabled the seamless integration of the Siqalo Foods business chain, from commodity procurement to production, finance, human capital, marketing and key account management, as well as leveraging the distribution and sales and merchandising power of our Logistics business, Vector. The result is an innovative, alternative business model which allows RCL FOODS to earn a fee for our services and capabilities while Siqalo Foods benefits from the strategic management and competencies inherent in RCL FOODS. This is a significant extension to our value chain in recent years and illustrates the strength and scale of the platform we have created as a food business of scale.

Our approach to expansion in the rest of Africa has been to increase the focus on our export efforts and potential route-to-market acquisitions before making investments in other assets. We have made good progress in promoting our South African exports through our Logistics partners in Africa. In Uganda, we have made further infrastructure investments within our associate HMH Rainbow Limited, and are considering opportunities to establish this chicken business as a substantially more significant participant in the region. Our recent acquisition of a 45% shareholding in L&A Logistics Limited (L&A), a FMCG distribution operation based in Lusaka, Zambia, is performing well despite constrained economic conditions. It has been awarded new business from Unilever in both their traditional and modern trade lines during the year.

Sustainable business practices have been a mainstay of RCL FOODS' strategy for many years and are viewed as both a social and business imperative. We are making pleasing progress in our drive to become energy and water self-sufficient. Co-generation at our Sugar plants, waste-to-value energy production at our Chicken processing plants and solar power at our national office together are already providing close to 30% of our energy needs. Our efforts to monitor, measure and reduce our environmental footprint have earned us the top rating in the SA Food, Beverage and Tobacco sector in the Carbon Disclosure Project's 2018 Climate Change Survey. From a social perspective, our aim is to drive meaningful development in vulnerable communities by doing more for young children, easing hunger and supporting youth. Our DO MORE FOUNDATION enables us to leverage collaborative partnerships with business and government to amplify our impact on the impoverished communities we assist.

RCL FOODS FINANCIAL REVIEW

Income statement

RCL FOODS' revenue for the year ended June 2019 increased 5.5% to R25,9 billion (2018: R24,5 billion) driven largely by volume gains in most business units coupled with commodity driven price increases in Animal Feed. Despite the revenue gains, EBITDA declined R520,3 million (25.4%) to R1 525,7 million (2018: R2 046,0 million) due mainly to Sugar (down R368,6 million) and Chicken (down R252,5 million). EBITDA excluding Sugar and Chicken increased 7.8%, driven by a strong Groceries performance and improvements in Millbake.

Rm	June 2019	June 2019 Margin %	June 2018	June 2018 Margin %	% change	Margin Change (ppts)
EBITDA	**1 525,7**	**5.9**	2 046,0	8.3	(25.4)	(2.4)
Consumer	**853,9**	**6.6**	985,2	7.7	(13.3)	(1.1)
Sugar & Milling	**518,3**	**3.5**	869,0	6.4	(40.4)	(2.9)
Logistics	**118,5**	**5.4**	204,3	10.3	(42.0)	(4.9)
Group	**35,0**		(12,5)			

Consumer's EBITDA decline was largely due to the impact of low realised selling prices and higher feed costs in the Chicken business unit, offset partially by a strong Groceries result with gains made in most of their categories. The significant decline in the Sugar & Milling division's EBITDA stemmed from the Sugar business unit. Sugar's result was impacted by an adverse sales mix weighted towards lower margin raw export sales. Logistics was negatively impacted by higher operating costs and once-off start-up costs incurred to enable the Pick n Pay and Siqalo Foods contracts. Included in the Group line is the fee earned from Siqalo Foods for the management of their shared services functions.

The current and prior period results include the following items which materially impacted EBITDA:

- A R105,0 million profit on sale of dormant farms in the Chicken business unit (2018: R101,4 million), resulting from the February 2017 Chicken restructure;
- A R47,0 million profit on disposal of the prepared lines at the Speciality Bronkhorstspruit site;
- Positive adjustments on the Group's commodity raw material procurement strategy positions, which improved EBITDA by R32,4 million (2018: R80,8 million positive adjustment). The R32,4 million current year adjustment relates mainly to gains on maize positions whilst the prior year adjustment included gains on currency positions which have reversed due to the strengthening of the rand in the current period;
- R78,2 million in once-off costs related to the Listeriosis crisis in the Chicken business unit in the prior financial year; and
- A R62,0 million provision for retrenchment costs in the Speciality business unit in the prior financial year related to the exit from the prepared lines at the Bronkhorstspruit site.

Excluding the above items, EBITDA for the current financial year declined by R662,7 million (33.1%).

Net finance costs

The Group restructured its term-funded debt package in December 2018, down from R2 852,0 million to R2 350,0 million, with the R502,0 million reduction being settled from cash resources. Interest is payable at a rate of three-month JIBAR plus a margin of between 1.5% and 1.55%, compared to a rate of three-month JIBAR plus a margin of between 1.8% and 2.25% on the previous package. The Group has entered into a collar structure for R1 762,5 million of the total debt package to hedge interest rate variability, effective from 1 April 2019 to 31 March 2022.

Net finance costs increased R24,1 million (9.5%) on the prior year. The increase stems mainly from a negative R29,8 million fair value adjustment on the Group's interest rate collar hedges, included under finance costs. The decline in profitability and higher working capital requirements resulted in lower average cash balances over the year and negated most of the benefit from the reduced interest rates on the restructured debt package.

Tax

The Group's effective tax rate excluding joint ventures and associates was (1.0%) (2018: 21.2%). The current year tax rate was materially impacted by deferred tax assets not recognised in our 50% owned sugar cane-grower companies (R51,8 million tax impact) and a lower deferred tax asset raised for future tax deductions on the Group's employee share schemes relating to unexercised share appreciation rights (SARs) and conditional shares (CSPs) awarded to employees (R38.9 million tax impact). Excluding the above items, the effective tax rate was 30.6%.

The decline in the RCL FOODS share price has reduced the intrinsic value (difference between RCL FOODS share price and award price) on awarded SARs and CSPs at year end. Due to the decrease in intrinsic value, a lower future tax deduction is expected when the SARs and CSPs are exercised, resulting in a reduction in deferred tax assets. The Group accounts for the SARs and CSPs as equity settled, and as a result has recorded a share based payments expense of R139,1 million in the current period without any corresponding tax impact.

The 2018 effective tax 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.

Impairments

The severe decline in profitability in our Sugar and Chicken business units was an indicator of impairment and as a result the Chicken operations and assets across our Sugar operations were tested for impairment in the current year. As mentioned earlier, an impairment of R761,9 million was recorded for Sugar, however no impairments were required for Chicken. The annual impairment reviews conducted on our other CGUs that include goodwill and other indefinite life intangible assets did not require any impairments, although headroom was reduced in certain CGUs due to the current economic environment.

Statement of financial position and capital expenditure

Property, plant and equipment decreased by R356,3 million with capital expenditure totalling R1 130,9 million for the year, offset by depreciation charges of R697,1 million and the Sugar impairment on property plant and equipment of R743,9 million (of the total Sugar impairment of R761,9 million, R18,0 million related to goodwill).

Capital expenditure (including intangibles of R20,5 million) for the year ended June 2019 was R1 151,4 million (2018: R849,1 million). Major spend items included:

- Construction of the Rustenburg waste-to-value plant which forms part of the Group's overall sustainability strategy (R173,9 million);
- Cane replant and irrigation investments in the Sugar business unit (R41,3 million);
- Logistics fleet and infrastructure to build our frozen and super-frozen capabilities (R48,5 million);
- Spend to move the remaining Bronkhorstspruit operations to other Speciality sites, required as part of the decision taken to exit the Speciality prepared lines (R54,3 million);
- Investments behind high-pressure processing equipment that provides additional food safety measures for viennas (R24,0 million);
- Investments in the Pies business unit to support future growth (R22,6 million); and
- Hatchery infrastructure investments in the Chicken business unit (R22,8 million).

The remaining spend is largely made up of smaller items of less than R20,0 million.

An amount of R502,5 million (2018: R327,3 million) has been contracted and committed, but not spent, whilst a further R251,4 million (2018: R586,1 million) has been approved but not contracted. Major items included in these amounts relate to:

- Completion of the waste-to-value plant at our Rustenburg Chicken site (R126,1 million);
- Further investments within the Millbake business unit (R60,0 million);
- Further investments in the Pies business unit to support future growth (R55,6 million); and
- Cane replant and irrigation investments in the Sugar business unit (R41,2 million).

Investment in associates increased by R86,5 million driven mainly by profits capitalised in the Royal Swaziland Sugar Corporation (RSSC) of R86,1 million and the R40,6 million investment in L&A, partially offset by dividends received from RSSC of R42,8 million.

Assets held-for-sale in the current year relate mainly to the disposal of unutilised land in the Sugar business unit for which transfer is pending at year end. The prior year included the Speciality business unit's prepared lines disposal group which has been disposed of in the current year. The proceeds on disposal are receivable over a two-year period to February 2021. An amount of R148,8 million is outstanding at year end of which R72,5 million is reflected under non-current trade and other receivables and R76,3 million reflected under current trade and other receivables.

Net working capital (including biological assets) has increased by R812,4 million over the comparative period and from 11.7% to 14.2% as a percentage of revenue.

Biological assets increased R59,1 million (7.3%) on the prior year due to higher year-on-year feed costs which drove a higher valuation of live birds. Inventory increased R181,9 million (6.2%) with the increase mainly driven by a higher chicken stock value, due to the increase in feed costs as well as higher pet food stocks.

Trade and other receivables increased R348,1 million and from 17.3% to 17.8% of revenue, whilst trade and other payables decreased R223,3 million and from 20.9% to 18.9% of revenue. Trade and other receivables and payables balances in both the current and prior year were affected by the timing of the year-end cut-off falling over a weekend. A total of R238,1 million in receivables was received late post year end cut-off in 2019 (2018: R542,7 million). A total of R277,7 million was paid post the year end cut-off in 2018 with a similar value paid in 2019. Adjusting for the late receipts, trade and other receivables would have increased R652,7 million. The material increase in trade and other receivables was driven by:

- The take-on of Siqalo Foods into the Vector Logistics principal network, which resulted in a R339,0 million increase in receivables (corresponding increase of R271,3 million in payables resulting from the take-on);
- R76,3 million in proceeds receivable related to the prepared lines disposal; and
- Higher revenue values in 2019 (total revenue up 5.5%) particularly in Animal Feed, without the corresponding increase in creditors noted, due to the majority of the Animal Feed creditors being commodity suppliers on shorter terms than our trade debtors.

The decrease in trade and other payables was largely due to a decrease in short-term funding received from the South African Sugar Association (SASA) within our Sugar business unit (R345,0 million lower than the prior year). The decrease stemmed from a lower annual receipt of funding at the end of sugar industry season in March 2019 and the prior year benefitting from SASA allowing extended payment terms on industry levy payments into our 2019 financial year due to the significant cash flow pressure experienced by the cane growers following the prior year local market price decreases. The prior year also included a R62,0 million retrenchment provision related to the exit from the Speciality prepared lines which was settled in the current financial year.

Cash on hand, net of overdrafts, has decreased from R1 263,4 million in 2018 to a net overdraft position of R110,4 million at the end of the 2019 financial year. The decrease was largely due to the lower profitability and higher working capital requirements, coupled with a R502,0 million pay down on the restructured term-funded debt package.

Total interest-bearing liabilities of R2 821,0 million are R427,7 million lower than last year with the decrease mainly due to the restructuring of the term-funded debt package. The total term-funded debt package reduced from R2 852,0 million to R2 350,0 million with the first capital payment of R112,5 million due in December 2021. Under the previous package an amount of R1 097,0 million was due in February 2019 and was reflected under short-term interest-bearing liabilities. The restructuring of the term-funded debt package resulted in the decrease in short-term interest-bearing liabilities of R1 101,0 million and the total restructured package of R2 350,0 million being reflected under long-term interest-bearing liabilities.

Cash flow

Cash generated by operations decreased by R987,9 million (55.4%) to R796,7 million. The decrease was driven largely by the decline in operating profit and a R382,6 million increase in working capital requirements. The increase in working capital requirements largely related to the higher feed input costs which drove higher stock values over the year, a higher net trade receivables/payables balance largely due to reduced short-term funding from SASA (down R345,0 million) and the settlement of once-off provisions in the current year (R62,0 million), as mentioned earlier. Due to the increase in working capital requirements, the cash conversion ratio decreased to 52% (2018: 87%).

Included in the non-cash items of R1 207,1 million are add-backs of depreciation, amortisation and impairment charges of R1 555,0 million and non-cash IFRS 2 and BEE charges of R156,7 million. These were offset by deductions of positive fair value adjustments on biological assets within the Chicken and Sugar business units of R43,9 million and R309,0 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 (R324,9 million), resulting in a net R15,9 million decrease in Sugar biological assets for the year.

Investing activities spend has increased by R245,4 million. Material items included within investing activities relate to capital expenditure (including intangibles) of R1 151,4 million (2018: R849,1 million) and proceeds on disposal of fixed assets and assets held-for-sale of R205,2 million (2018: R157,1 million).

Financing activities spend in the current year relates mainly to the R502,0 million repayment on restructuring on the term-funded debt package, offset partially by funding received for the Rustenburg waste-to-value project of R50,0 million from the outside shareholders of Matzonox Proprietary Limited, our waste-to-value subsidiary.

REVIEW OF OPERATIONS

Consumer division

	June 2019	June 2018	% change
Revenue (Rm)	12 965,0	12 752,9	1.7
EBITDA (Rm)	853,9	985,2	(13.3)
EBITDA margin (%)	6.6	7.7	(1.1) ppts

The Consumer division grew revenue by 1.7% due mainly to volume growth in the Salad Dressing, Pie and Beverage categories.

EBITDA declined by R131,3 million (13.3%) to R853,9 million, with the shortfall in Chicken (down R252,5 million) more than offsetting the gains made in Groceries (up R121,2 million). The results include the accounting for the exit from the prepared lines in the Speciality business unit (R47,0 million profit on disposal in 2019, R62,0 million retrenchment cost provision in 2018), the profits on disposal of dormant farms in the Chicken business unit of R105,0 million (2018: R101,4 million), IFRS 9 fair value gains on commodity positions of R2,9 million (2018: R19,1 million) and R78,2 million in once-off costs related to Listeriosis in the Chicken business unit in the prior year. Excluding these items, Consumer's EBITDA decreased by R305,9 million (30.4%).

The Groceries cluster delivered pleasing growth, benefiting from volume and margin increases across all its business units, with the exception of Speciality, as well as the launch of a range of innovations and continued market share gains in several categories. Chicken experienced a significant decline in EBITDA due to low prices in an oversupplied market and rising input costs.

Whilst overheads have been well managed, production cost pressure, primarily as a result of rising input costs, remains an ongoing challenge. There will be continued focus on reducing operating costs and improving efficiencies in the coming year.

RCL FOODS continued to grow its total food basket ahead of the Ask'd industry basket, having grown volumes by 1.8% for the 12 months to June 2019 relative to an industry basket which grew by 0.7%.

Groceries (Grocery, Beverages, Pies and Speciality)

Groceries delivered another solid result for the year. EBITDA rose 23.4% to R639,6 million at a margin of 10.8% (2018: R518,4 million at a margin of 9.0%). Excluding the once-offs mentioned above, Groceries EBITDA still reflected an increase of 5.1% in tough market conditions.

Grocery, Pies and Beverages were well ahead of the prior year as a result of improved margins across most categories and higher overall volumes, coupled with a strong focus on operational efficiency. Grocery has successfully grown its market share in several categories despite aggressive competitor activity. Over the 12 months to June 2019, our portfolio of number one brands, consisting of Catmor, Canine Cuisine, Bobtail, Nola, Yum Yum and Ouma, remain entrenched as market leaders in their respective categories (source: Aztec). Pleasingly, the Salad Dressing, Rusks and Peanut Butter categories have grown volumes and market share at improved margins, despite the loss of certain Dealer Owned Brand ranges to imported product. This positive outcome was the result of a relentless focus on doing the basics right from a promotional activity and a customer account perspective, ongoing investment in our brands and constant innovation.

In the Pet Food category, RCL FOODS grew market share in a market which was under pressure in 2019, with our market share gains driven to a large extent by innovation rolled out during the year. Despite aggressive competitor activity, a well-executed front-end plan assisted in maintaining and growing volumes for the year. Innovations in Bobtail 2 in 1, Optimizor and Feline/Canine Cuisine demonstrated excellent results and further growth is expected in the new year, through the introduction of new channels and different routes to market. The new pet food plant which was commissioned in April 2018, has enabled us to extend our product offering in this category through a range of new and renovated products.

Pies delivered an exceptional performance. Targeted initiatives drove strong volume growth despite a bakery fire earlier in the year that impacted service levels. Market response to the launch of pie mini's and sausage rolls has been positive. Pies margins continued to benefit from the initiatives to drive down cost and reinvest in quality, price and targeted marketing. The rebuild of the damaged bakery is expected to be completed in September 2019. A new line will also be added to the plant, which is expected to come into production in April 2020. These expansions will bring exciting innovation capacity on stream, which will further entrench the growing position in this category.

Following the decision to focus on Speciality's bread and dessert lines, the Group disposed of the prepared lines in March 2019, which consisted primarily of deli snacks, sandwiches, salads, biltong and pizza. Within the remaining business, a strike at the Centurion facility as well as muted consumer demand adversely impacted performance. Focus for the year ahead is on achieving synergies associated with the consolidation of sites and step changing demand through innovation in categories where demand has stalled. The implementation of SAP ERP was successfully concluded during the year, which has enhanced controls and information visibility.

Beverages reflected a pleasing result supported by strong volume growth off a low base, especially in YogoBoost, an innovation launched this year, and Super Mageu. YogoBoost was well received by consumers and exciting growth is expected in 2020. There is a clear focus in the business on front-end execution and on improving capacity utilisation in the Ultra-high processing (UHT) plant through innovative product launches.

Chicken

The difficult trading environment for Chicken has continued unabated with local volume and imports driving market oversupply and negatively impacting market pricing amidst a rising feed cost cycle. Low selling prices were realised despite an 11.2% increase in feed cost per ton. Chicken's EBITDA declined by 54.1% to R214,3 million at a margin of 3.0% (2018: R466,8 million at a margin of 6.7%). Excluding the once-off items mentioned above, Chicken's EBITDA declined R334,3 million (75.4%).

Chicken imports have grown, mainly from Brazil and America, and more recently the European Union markets after the lifting of Avian Influenza bans against affected countries. Agricultural performance in the period was negatively impacted by challenges experienced with Cobb's breed performance. This matter has been addressed with Cobb Vantress International. Dumped imports remain a significant component of (approximately 25%), and issue for, the local poultry market. The excess supply created by dumping provided little opportunity to recover higher feed costs and severely affected profitability.

The Consumer division is assessing strategies to step change competitiveness in the Chicken business unit and has appointed a dedicated business unit head and team to bring greater focus and attention to the business unit. RCL FOODS' Freezer-to-Fryer ranges have reflected gains whilst polony volumes and market share have recovered to pre-Listeriosis levels. Viennas were re-launched in the last quarter of the financial year, benefiting from new and advanced high-pressure processing equipment to further enhance quality and safety.

We continue to strive for a Chicken business model that has more sustainability and consistency of profits. Effective cost management remains a key component to return Chicken to profitability and we are pleased with the progress from an overhead containment perspective, with current year overheads declining year-on-year, despite inflationary pressures.

Sugar & Milling division

	June 2019	June 2018	% change
Revenue (Rm)	**14 935,3**	13 668,9	9.3
EBITDA (Rm)	**518,3**	869,0	(40.4)
EBITDA margin (%)	**3.5**	6.4	(2.9) ppts

The Sugar & Milling division generated a 9.3% increase in revenue, mainly due to volume recovery and commodity driven price increases in the Animal Feed business unit and strategic interventions at Millbake which culminated in pleasing volume growth. An adverse sales mix in the Sugar business unit drove the EBITDA decline.

Sugar

Revenue of R5 692,8 million was up 5.0% of the prior year on the back of higher production volumes. Despite the increase in revenue, EBITDA reduced by 129.7% to a negative R84,5 million (2018: R284,1 million at a margin of 5.2%).

Sugar production volumes have improved post the drought and increased by 14.2% to 679 000 tons. Financial pressure on consumers and declines in consumption brought about by the implementation of the Health Promotion Levy (sugar tax) has reduced domestic sugar consumption. The sugar tax induced large-scale reformulation of soft drinks as well as reduced pack sizes and is estimated to have reduced domestic consumption of sugar by more than 300 000 tons per annum (14% of total local market demand and approximately 24% of demand supplied by local producers). Local market margins were under significant pressure as competitors battle for market share.

The convergence of a near record sugar crop post the drought and significantly reduced demand, necessitated a shift in the sugar sales mix towards the raw export market (total export volumes up 50.8%). The mix shift resulted in significantly lower margins, due to a global sugar surplus which suppressed world sugar prices. These factors were the primary contributors to the substantial decline in Sugar's profitability.

There remains a strong focus within Sugar to ensure the continued sustainability of the business, as well as the industry. This is being achieved internally through an intense focus on cost, productivity and efficiency improvement initiatives, coupled with continuous interaction with government and industry bodies to

consider industry wide issues. We are working with industry role players to review the role of SASA, the appropriate structure and decisioning framework, as well as potential reforms to be considered to lower the cost of the current operating model and ensure the long-term sustainability of the industry.

The industry, in conjunction with government, is reviewing potential downstream diversification opportunities including ethanol production, electricity co-generation and bioplastics. To be commercially viable, the alternatives will require substantial capital investment, as well as various forms of regulatory support from government.

Animal Feed

Animal Feed achieved revenue growth of 15.8% with volumes up across all brands and price increases implemented in response to input cost pressure. Low meat prices for customers made it difficult to fully recover the increases in raw material prices, putting margins under pressure in an intensely competitive market. Animal Feed generated EBITDA of R295,8 million, down 7.4%, at a margin of 5.4% (2018: R319,5 million at a margin of 6.8%). The results include an IFRS 9 fair value gain on commodity positions of R29,5 million (2018: R61,7 million), excluding which Animal Feed's EBITDA increased R8,5 million (3.3%) on last year.

Broiler feed remained the most significant volume contributor, followed by Ruminants. RCL FOODS' offering in the horse and game sectors were also extended through the acquisition of Driehoek Voere during the year. Molatek's performance reflected strong volume growth and a better sales mix, however, increased raw material prices put margins under pressure.

The resilience of earnings is evidence of a strong underlying business, which has successfully established itself as a leading provider in the industry. Animal Feed will drive future growth through a customer centric business culture and product innovation. There is a continuous focus on developing innovative feed solutions to strengthen brands and broaden the customer base.

Millbake (Milling and Baking)

Millbake delivered a pleasing performance, growing both volumes and margins. The Millbake business unit increased revenue by 8.4% to R3 953,2 million (2018: R3 646,5 million) and generated an EBITDA of R307,0 million at a margin of 7.8% (2018: R265,4 million at a margin of 7.3%).

Baking was the main driver of the improved result. The range of initiatives implemented over the past two years to turn the Baking business around are evident in the current year's performance, providing a strong platform to continue to grow as conditions improve. The performance was driven by volume growth (up 4.0%), improved margins due to higher selling prices, effective cost saving initiatives, better managed bread returns and damages, as well as appropriate marketing support. A strong focus on product quality generated pleasing growth in Gauteng, which offset competitive pressure in the rural areas. Despite higher fuel prices, good traction was achieved on cost reduction initiatives, which will continue to receive focus next year. Progress has also been made in terms of broadening the geographies served by our brand, and this is expected to continue in the next few years.

Despite a focus on growing margin, good procurement and selective price increases, **Milling** reported a decline in profitability as a result of operational challenges at the mill which have largely been resolved. Volumes were up marginally in a market that continues to be oversupplied and there is a continued focus on internal utilisation of milling output in the Baking business.

Logistics division

	June 2019	June 2018	% change
Revenue (Rm)	**2 182,8**	1 980,0	10.2
EBITDA (Rm)	**118,5**	204,3	(42.0)
EBITDA margin (%)	**5.4**	10.3	(4.9) ppts

The Logistics division experienced continued tough trading conditions during the year under review.

Revenue increased by a pleasing 10.2% largely driven by:

- The annualisation of the volumes under the key long-term contract with Pick n Pay for their frozen category (including ice-cream). This assisted in mitigating the impact of the internal volumes lost through the implementation of the revised Chicken business model and enhanced our capabilities to include super-frozen solutions;
- Increased Foodservice revenue, with solid growth noted across most customers; and
- The take-on of the Siqalo Foods business from March 2019.

Gains in new business were more than offset by a combination of cost headwinds and certain customers exiting the network in the latter half of the financial year, resulting in EBITDA decreasing by 42.0% to R118,5 million. These cost pressures comprised a combination of recurring and once-off costs and included:

- Significantly increased fuel costs on the back of the fuel price reaching an all-time high during the year under review;
- Increased manpower costs in order to maintain service levels; and
- Once-off start-up costs to enable both the Pick n Pay and Siqalo Foods contracts.

Logistics continues to focus on further new business, as well as strategic right-sizing cost opportunities and remains well positioned to offer customers a multi-temperature route-to-market solution, including the chilled, frozen and super-frozen temperatures regimes.

EQUITY ACCOUNTED INVESTMENTS

Associates

Royal Swaziland Sugar Corporation ("RSSC") (Eswatini)

RCL FOODS share of RSSC's after-tax results for the year ended June 2019 was up 69.2% to R86,1 million (2018: R50,9 million). RSSC is not regulated by SASA and as a consequence is not required to export its share of production on a quota basis into the low price international markets and does not participate in the sharing of SASA industry, transformation and association costs. As a result, RSSC was not as severely impacted by market conditions as our Sugar business unit, due to a higher share of sales into SACU and SADC markets at higher prices. Further contributing to their current year improvement was the restoration of ethanol volumes, which were impacted in 2018 by an explosion at the plant and higher sugar production volumes due to the continued recovery post the drought. The Group equity accounted 29.2% of RSSC's results for the full 12 months in 2019 following the acquisition of an additional 1.76% in December 2017.

L&A Logistics (L&A) (Zambia)

The Group acquired a 45.0% stake in L&A on 1 October 2018. L&A has a March year-end and due to the practicality of obtaining audited results timeously, their results have been accounted for three months in arrears. The Group has equity accounted six months of L&A's results in the current year, an after-tax contribution of R0,2 million, with the result negatively impacted by the higher cost of imported products due to the devaluation of the Zambian Kwacha during the period.

HMH Rainbow (HMH) (Uganda)

Revenue and EBITDA increased largely due to higher volumes stemming from the additional chicken houses constructed, however profit after tax declined as the additional houses resulted in higher depreciation charges and finance costs. Its after-tax contribution was a loss of R1,8 million (2018: R0,9 million profit).

Joint ventures

Akwandze Agricultural Finance (Akwandze) and Mananga Sugar Packers (Mananga) (Eswatini)

Sugar & Milling's Akwandze and Mananga investments contributed a combined after-tax profit of R29,7 million for the 12 months to June 2019 (2018: R16,6 million), with the increase mainly due to higher sugar volumes processed in Mananga.

Senn Foods Logistics (Senn) (Botswana)

Senn delivered another sound performance driven by increased net revenue largely as a result of the take-on of new business. Its after-tax contribution was R13,6 million (2018: R11,7 million).

PROSPECTS

Groceries will continue to focus on strong innovation, brand investment and efficiencies to drive profitability, although further share gains in key categories will be challenging in the highly competitive markets. Millbake is expecting further traction from its cost saving initiatives and ongoing investment in its brands.

Sugar expects to remain under significant pressure and urgent interventions are required at an industry level in order to ensure the future viability of the local industry. Local market sugar demand is expected to remain constrained and the balance of production not sold locally will continue to be exported at depressed global sugar prices. Whilst these factors are largely out of our control, we are placing significant focus on cost reduction and optimisation initiatives across the operations and we will continue to investigate viable diversification opportunities for our products in order to restore the Sugar business unit to profitability.

Chicken will focus on engagement with industry and government in order to establish a level playing field required for local producers to be able to compete with the significant volumes of dumped imports that enter the local market. The recent application to increase the tariff on imports of boneless cuts and bone-in portions from non-European Union countries to the maximum permitted by the World Trade Organisation of 82% has been delayed. Whilst the outcomes of these applications are still unknown, we will continue our focus on the business drivers within our control.

The Logistics division is well positioned to offer customers a multi-temperature route-to-market supply chain solution. The new business won during the period under review bodes well for the next year and the focus will be on bedding down these opportunities and improving efficiencies.

We remain comfortable with our low gearing profile in a distressed economy and believe that we are well placed to consider strategic opportunities that might be forthcoming in the South African market and remain well-positioned to capitalise on any improvements in the domestic economy.

CASH DIVIDEND DECLARATION

Notice is hereby given that the directors have declared a final gross cash dividend (number 89) of 10,0 cents (8,0 cents net of dividend withholding tax), bringing the total dividend declared for the year ended June 2019 to 25,0 cents (2018: 40,0 cents)

The dividend has been declared from income reserves.

A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The issued share capital at the declaration date is 940 901 560 ordinary shares. The company's income tax reference number is 9950019712.

The salient dates for the dividend will be as follows:

Publication of declaration data	Monday, 2 September 2019
Last day of trade to receive a dividend	Tuesday, 29 October 2019
Shares commence trading "ex" dividend	Wednesday, 30 October 2019
Record date	Friday, 1 November 2019
Payment date	Monday, 4 November 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 30 October 2019 and Friday, 1 November 2019 (both days inclusive).

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 Listings 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 new and amended standards as set out below.

New and amended standards adopted by the Group

A number of new and amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

- IFRS 9 'Financial instruments'
- IFRS 15 'Revenue from contracts with customers'

The impact of the adoption of these standards and related new accounting policies are disclosed in the "Change in accounting policies" section below. The other standards did not have any impact on the Group's accounting policies or results.

Impact of standards issued but not yet effective

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect primarily the accounting for the Group's operating leases. The Group has assessed the impact of leases on its financial results and the ***approximate*** change in key financial statement line items is reflected below:

	Rm Increase/ (decrease)*
Statement of financial position	
Property, plant and equipment	1 100,0
Non-current interest-bearing liabilities	1 000,0
Current interest-bearing liabilities	100,0
Statement of comprehensive income	
EBITDA	210,0
Depreciation, amortisation and impairment	170,0
EBIT	40,0
Finance costs	90,0
Profit before tax	(50,0)
Taxation	(14,0)
Headline earnings	(36,0)
Headline earnings per share (HEPS)	(4 cents)

**Based on the expected take-on values at 1 July 2019 and statement of comprehensive income impact for the June 2020 financial year.*

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date. The date of initial application of the standard for the RCL FOODS Group is 1 July 2019 (the 2020 financial year).

Changes in accounting policies

This section explains the impact of the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from contracts with customers' on the Group's financial statements and discloses the new accounting policies that have been applied from 2 July 2018, where they are different to those applied in prior periods.

(a) Impact of IFRS 15 and IFRS 9 on the financial statements

The adoption of IFRS 15 resulted in the Group identifying an error in the classification of transport income within the Sugar & Milling segment of R102,0 million. This reclassification had no impact on profit, retained earnings or the balance sheet. Refer to the prior period error section below for further information. IFRS 15 did not have any further impact on the Group's results.

IFRS 9 was adopted without restating comparative information. The adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as at 1 July 2018, but are recognised in the opening balance sheet on 2 July 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail in the sections that follow.

Consolidated statement of financial position (extract) **R'000**	1 July 2018 As originally presented	IFRS 9 impact	**2 July 2018**
Assets			
Non-current assets	11 516 204	369	**11 516 573**
Deferred income tax asset	28 448	369	**28 817**
Current assets	9 318 513	(8 955)	**9 309 558**
Trade and other receivables	4 254 014	(8 955)	**4 245 059**
Total assets	20 991 297	(8 587)	**20 982 710**
Equity	11 179 703	(6 447)	**11 173 256**
Retained earnings	2 336 451	(6 288)	**2 330 163**
Non-controlling interest	48 729	(159)	**48 570**
Liabilities			
Non-current liabilities	3 361 071	(2 139)	**3 358 932**
Deferred income tax liabilities	1 253 584	(2 139)	**1 251 445**
Total liabilities	9 811 594	(2 139)	**9 809 455**
Total equity and liabilities	20 991 297	(8 587)	**20 982 710**

(b) Impact of adoption – IFRS 9 'Financial instruments'

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 2 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in part (c) below. In accordance with the transitional provisions in IFRS 9 (7.2.15) comparative figures have not been restated.

The total impact on the Group's total equity as at 2 July 2018 is as follows:

R'000	**Retained earnings**	**Non-controlling interests**	**Total equity**
Closing balance – 1 July 2018	**2 336 451**	**48 729**	**11 179 703**
Increase in provision for trade receivables	**(8 734)**	**(221)**	**(8 955)**
Increase/decrease in deferred tax	**2 446**	**62**	**2 508**
Opening balance – 2 July 2018	**2 330 163**	**48 570**	**11 173 256**

The impact on the Group's results from the adoption of IFRS 9 relate solely to the new impairment requirements. The Group has financial assets carried at amortised cost consisting of:

- Current trade and other receivables related to sales of goods comprising the sale of milling, agricultural produce and consumer goods and from service revenue comprising logistics, distribution, management and consulting services;
- Trade and other receivables – non-current;
- Cash and cash equivalents; and
- Loans receivable.

The impact of the change in impairment methodology on the Group's total equity is disclosed on the previous page. The adjustment arose from changes in the impairment provisions for the Group's current trade and other receivables. Adjustments to all other financial assets were not material and hence did not warrant a restatement to opening equity.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses on its current trade receivables, which calculates the loss allowance on a lifetime basis. The Group has credit insurance in place with Lombard for all domestic trade debtors above R75 000, subject to an excess. The credit policy requires each new customer to be analysed individually for creditworthiness before delivery and payment terms are offered. The insurance cover is taken out at inception of the sale and is integral to the enactment of the sale.

To measure the expected credit loss, trade receivables have been grouped based on shared characteristics and days past due. The calculation of the expected credit loss takes into account the insurance cover in place.

Reconciliation of loss allowance for trade receivables as at 1 July 2018 to 2 July 2018:

R'000	Trade receivables – impairment provision
Closing impairment provision 1 July 2018 (as calculated under IAS 39)	35 656
Amount restated through opening equity	8 955
Opening impairment provision 2 July 2018 (as calculated under IFRS 9)	44 611

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, a failure to make contractual payments for a period of greater than 120 days past due and/or when the legal process has not enabled recovery.

The adoption of the classification and measurement and hedging requirements of IFRS 9 have not had any impact on the Group's results.

(c) Accounting policies adopted 2 July 2018 – IFRS 9 'Financial instruments'

Classification

From 2 July 2018, the Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value through profit or loss; and
- Those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss.

The Group reclassifies financial assets when, and only when, its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Subsequent measurement of financial assets depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its financial assets:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

FVPL: Assets that do not meet the criteria for amortised cost are measured at FVPL. A gain or loss on a financial asset that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Impairment

From 2 July 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(d) Accounting policies adopted 2 July 2018 – IFRS 15 'Revenue from contracts with customers'

Revenue comprises income arising in the course of the Group's ordinary activities. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or when services are rendered to a customer. Revenue is recognised net of value added tax, returns, rebates, discounts and other allowances and after eliminating sales within the Group.

Sales of goods comprise the sale of milling, agricultural produce and consumer goods. Sales of services comprise logistics, warehousing, distribution, management and consulting services.

In certain instances, the sale of goods includes delivery and these sales are identified as being a single performance obligation. In all other cases, where the Group is requested to arrange transport for the customer, two separate performance obligations arise – the sale of goods and the provision of transport. To the extent that the Group is responsible for the provision of the transport services to the customer, the Group acts as principal and revenue from transport services is recorded at the gross amount.

Revenue from the sale of goods is recognised only when the performance obligations arising from the contract with a customer is satisfied and the amount of revenue that it expects to be entitled to can be determined. For sales that include delivery (as indicated above), this occurs when a Group entity has delivered the products to the customer and the customer has accepted delivery. In instances where the delivery is a separate performance obligation (as indicated above), revenue from the sale of goods is recognised when the goods are transferred to the transport provider for delivery.

Revenue from the sale of services relate mainly to transport services and is recognised over time (over the period of delivery). Revenue from other services provided by the Group is recognised over the period over which the service has been rendered.

The Group bases its estimates of incentive rebates and settlement discounts on historical results. Variable consideration is calculated by applying percentages agreed with customers to actual sales for the period. The transaction price represents the amount contracted to with the customer net of any value added tax, returns, rebates, discounts and other allowances.

The following payment terms are applicable to the Group:

- Sale of goods: 0 to 90 days
- Sale of services: 0 to 30 days

The Group currently accepts returns from customers for damaged goods, with the corresponding refund liability recorded within trade and other receivables unless a separate obligation to settle the customer exists, in which case the liability is recorded within trade and other payables.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Prior period error

The adoption of IFRS 15 resulted in the Group re-evaluating its contracts with customers. Through the evaluation process the Group identified that it had incorrectly accounted for transport income on the basis that the Group acted as an agent, whilst in substance the Group acted as principal in terms of IAS 18. As a result, the Group has restated its revenue in terms of IAS 18 by reclassifying transport income out of selling and marketing costs and into revenue. This reclassification had no impact on profit, retained earnings or the balance sheet.

Consolidated income statement (extract)

R'000	June 2018 As originally presented	Reclassificaton adjustment	June 2018 (restated)
Revenue	24 425 996	101 965	24 527 961

REPORTING AND CORPORATE INFORMATION

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 30 September 2019.

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 are for the period ended 30 June 2019, a 364-day period, which is consistent with the prior period.

For and on behalf of the Board

JJ Durand
Non-executive Chairman

M Dally
Chief Executive Officer

Durban
2 September 2019

Directors: HJ Carse, JJ Durand (Non-executive Chairman), M Dally (CEO)*, RH Field*, CJ Hess, PR Louw, NP Mageza, PM Moumakwa (appointed 1 January 2019), DTV Msibi, PJ Neethling** (appointed 21 June 2019), MM Nhlanhla, RV Smither, GM Steyn and GC Zondi.

** Executive directors*

***Alternate director*

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 of Southern Africa Limited, Investec Bank Limited, Nedbank Limited and Standard Bank Limited

Website: www.rclfoods.com

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2019 R'000	1 July 2018 R'000
ASSETS		
Non-current assets		
Property, plant and equipment	**5 566 523**	5 922 829
Intangible assets	**2 102 156**	2 162 828
Investment in joint ventures	**288 241**	248 570
Investment in associates	**612 918**	526 437
Deferred income tax asset	**71 400**	28 448
Loans receivable	**91 561**	35 920
Trade and other receivables	**127 025**	58 010
Goodwill	**2 537 076**	2 533 162
	11 396 900	11 516 204
Current assets		
Inventories	**3 108 568**	2 926 748
Biological assets	**866 493**	807 331
Trade and other receivables	**4 602 122**	4 254 014
Derivative financial instruments	**4 644**	5 031
Tax receivable	**46 213**	32 953
Loans receivable	**2 500**	29 072
Cash and cash equivalents	**376 843**	1 263 364
	9 007 383	9 318 513
Assets of disposal group classified as held for sale	**2 585**	156 580
Total assets	**20 406 868**	20 991 297
EQUITY		
Capital and reserves	**10 834 026**	11 179 703
LIABILITIES		
Non-current liabilities		
Deferred income		22
Interest-bearing liabilities	**2 639 363**	1 965 983
Deferred income tax liabilities	**1 211 607**	1 253 584
Retirement benefit obligations	**126 590**	135 072
Trade and other payables	**6 326**	6 410
	3 983 886	3 361 071
Current liabilities		
Trade and other payables	**4 893 301**	5 116 615
Deferred income	**3 970**	7 835
Interest-bearing liabilities	**181 634**	1 282 673
Derivative financial instruments	**22 830**	31 056
Current income tax liabilities		12 344
Bank overdraft	**487 221**	
	5 588 956	6 450 523
Total liabilities	**9 572 842**	9 811 594
Total equity and liabilities	**20 406 868**	20 991 297

CONSOLIDATED INCOME STATEMENT

	June 2019 R'000	June 2018 R'000
Revenue from contracts with customers*	**25 887 506**	24 527 961
Operating profit before depreciation, amortisation and impairment (EBITDA)**	**1 525 659**	2 045 984
Depreciation, amortisation and impairment**	**(793 074)**	(775 640)
Impairment of Sugar cash-generating unit	**(761 912)**	
Operating (loss)/profit	**(29 327)**	1 270 344
Finance costs	**(325 201)**	(315 104)
Finance income	**48 585**	62 624
Share of profits of joint ventures	**43 318**	28 268
Share of profits of associates	**84 523**	51 834
(Loss)/Profit before tax	**(178 102)**	1 097 966
Income tax expense	**(5 860)**	(219 589)
(Loss)/Profit for the year	**(183 962)**	878 377
Attributable to:		
Equity holders of the company	**(110 541)**	922 439
Non-controlling interests	**(73 421)**	(44 062)
HEADLINE EARNINGS		
(Loss)/Profit for the period attributable to equity holders of the company	**(110 541)**	922 439
Profit on disposal of property, plant and equipment and assets held-for-sale	**(93 957)**	(77 583)
Insurance proceeds	**(19 833)**	(11 931)
Impairments	**553 820**	6 107
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	**329 489**	837 735
	Cents	Cents
Earnings per share attributable to equity holders of the company		
Basic earnings per share	**(12.7)**	106.6
Basic earnings per share – diluted	**(12.5)**	104.1
Headline earnings per share	**37.9**	96.8
Headline earnings per share – diluted	**37.3**	94.5

* *The prior periods revenue figures have been restated due to a classification error identified on implementation of IFRS 15, 'Revenue from contracts with customers.'*

** *Impairments relate only to impairments of property, plant and equipment and intangible assets.*

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	June 2019 R'000	June 2018 R'000
(Loss)/Profit for the year	**(183 962)**	878 377
Other comprehensive income		
Items that will not be reclassified to profit and loss		
Remeasurement of retirement medical obligations – net of tax	**12 275**	9 041
Share of associates other comprehensive income	**2 244**	(664)
Items that may subsequently be reclassified to profit and loss		
Cash flow hedges – net of tax		(467)
Currency translation differences	**5 637**	(10 011)
Other comprehensive income for the year – net of tax	**20 156**	(2 101)
Total comprehensive income for the year	**(163 806)**	876 276
Total comprehensive income for the year attributable to:		
Equity holders of the company	**(90 385)**	920 338
Non-controlling interests	**(73 421)**	(44 062)
	(163 806)	876 276

CONSOLIDATED CASH FLOW INFORMATION

	June 2019 R'000	June 2018 R'000
Operating (loss)/profit	**(29 327)**	1 270 344
Non-cash items	**1 207 100**	512 686
Operating profit before working capital requirements	**1 177 773**	1 783 030
Working capital requirements	**(381 029)**	1 587
Cash generated by operations	**796 743**	1 784 617
Net finance cost	**(257 344)**	(257 901)
Tax paid	**(133 155)**	(180 351)
Cash available from operating activities	**406 244**	1 346 365
Dividends received	**50 208**	62 394
Dividends paid	**(348 610)**	(304 610)
Cash outflows from investing activities		
Replacement property, plant and equipment	**(464 660)**	(521 798)
Expansion property, plant and equipment	**(666 206)**	(293 150)
Intangible asset additions	**(20 504)**	(34 108)
Acquisition of businesses	**(60 947)**	(72 542)
Acquisition of associate	**(40 638)**	
Additional investment in associate		(26 352)
Realised FEC loss on acquisition of associate		(934)
Advances of interest-bearing loans	**(15 646)**	(11 872)
Advances of non-interest-bearing loans	**(20 054)**	(35 920)
Receipts of interest-bearing loans		1 555
Proceeds on disposal of non-current assets held for sale	**183 923**	41 583
Proceeds on disposal of property, plant and equipment and intangible assets	**21 307**	115 520
Net cash outflow from investing activities	**(1 083 425)**	(838 018)
Cash outflows from financing activities		
Repayment of interest-bearing liabilities	**(554 726)**	(189 389)
Advances of interest-bearing liabilities	**127 067**	132 840
Additional capital contribution by non-contolling interest	**29 500**	
Net cash outflow from financing activities	**(398 159)**	(56 549)
Net movement of cash and cash equivalents	**(1 373 742)**	209 582
Cash and cash equivalents at the beginning of the year	**1 263 364**	1 053 782
Cash and cash equivalents at the end of the year	**(110 378)**	1 263 364

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated capital R'000	Share-based payments R'000	Other reserves R'000	Common control reserve R'000	Retained earnings R'000	Controlling interest total R'000	Non-controlling interest R'000	Total R'000
Balance at 2 July 2017	10 041 690	513 536	4 672	(1 919 832)	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)
Acquisition of subsidiary							56 349	56 349
BEE share-based payments charge		17 600				17 600		17 600
Employee share scheme:								
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 awards	45 551	(45 551)						
Ordinary dividend paid					(303 068)	(303 068)	(1 542)	(304 610)
Balance at 1 July 2018	**10 087 241**	**632 920**	**(5 806)**	**(1 919 832)**	**2 336 451**	**11 130 974**	**48 729**	**11 179 703**
Change in accounting policy*					**(6 288)**	**(6 288)**	**(159)**	**(6 447)**
Balance at 2 July 2018	**10 087 241**	**632 920**	**(5 806)**	**(1 919 832)**	**2 330 163**	**11 124 686**	**48 570**	**11 173 256**
Loss for the period					**(110 541)**	**(110 541)**	**(73 421)**	**(183 962)**
Other comprehensive income for the period			**5 637**		**14 519**	**20 156**		**20 156**
Additional capital contribution by non-controlling interest							**29 500**	**29 500**
BEE share-based payments charge		**17 600**				**17 600**		**17 600**
Employee share scheme:								
Value of employee services		**139 089**				**139 089**		**139 089**
Equity component of deferred tax on share-based payments		**(13 003)**				**(13 003)**		**(13 003)**
Exercise of employee share awards	**47 333**	**(47 333)**						
Ordinary dividend paid					**(347 360)**	**(347 360)**	**(1 250)**	**(348 610)**
Balance at 1 July 2019	**10 134 574**	**729 273**	**(169)**	**(1 919 832)**	**1 886 781**	**10 830 627**	**3 399**	**10 834 026**

* *Restated for the impact from the implementation of IFRS 9 "Financial instruments", relating to the adoption of an expected credit loss model for impairments of financial assets.*

SUPPLEMENTARY INFORMATION

		June 2019 R'000	June 2018 R'000
Capital expenditure contracted and committed		**502 490**	327 259
Capital expenditure approved but not contracted		**251 402**	586 140
STATISTICS			
Statutory ordinary shares in issue (includes BEE shares)	(000's)	**940 902**	938 087
Ordinary shares in issue for accounting purposes	(000's)	**870 143**	867 328
Weighted average ordinary shares in issue	(000's)	**868 897**	865 649
Diluted weighted average ordinary shares in issue	(000's)	**883 210**	886 486
Net asset value per share	(cents)	**1 245.1**	1 289.0
Ordinary dividends per share:			
Interim dividend declared	(cents)	**15.0**	15.0
Final dividend declared	(cents)	**10.0**	25.0
Total dividends	(cents)	**25.0**	40.0

SEGMENTAL ANALYSIS

	June 2019 R'000	June 2018 R'000
Revenue from contracts with customers*	**25 887 506**	24 527 961
Consumer	**12 964 966**	12 752 874
Sugar & Milling	**14 935 260**	13 668 815
Logistics	**2 182 820**	1 979 958
Group**	**101 623**	
Sales between segments:		
Consumer to Sugar & Milling	**(200 077)**	(136 392)
Sugar & Milling to Consumer	**(3 069 654)**	(2 727 031)
Logistics to Consumer	**(990 075)**	(977 755)
Logistics to Sugar & Milling	**(37 357)**	(32 508)
Operating profit before depreciation, amortisation and impairment* (EBITDA)**	**1 525 659**	2 045 984
Consumer	**853 885**	985 205
Sugar & Milling	**518 265**	869 037
Logistics	**118 504**	204 341
Group****	**35 005**	(12 599)
Depreciation, amortisation and impairment***	**(793 074)**	(775 640)
Impairment of Sugar cash-generating unit	**(761 912)**	
Operating profit/(loss)	**(29 327)**	1 270 344
Consumer	**529 783**	654 055
Sugar & Milling	**(604 993)**	521 204
Logistics	**39 586**	131 054
Group****	**6 297**	(35 969)
Finance costs	**(325 201)**	(315 104)
Finance income	**48 585**	62 624
Share of profits of joint ventures	**43 318**	28 268
Sugar & Milling	**29 678**	16 576
Logistics	**13 640**	11 692
Share of profits/(loss) of associates	**84 523**	51 834
Sugar & Milling	**86 119**	50 889
Ugandan Operation	**(1 753)**	945
Logistics	**157**	
(Loss)/Profit before tax	**(178 102)**	1 097 966

* *The prior periods revenue figures have been restated due to a classification error identified on implementation of IFRS 15, 'Revenue from contracts with customers.'*

** *Group revenue relates to management fees earned for shared services performed for Siqalo Foods Proprietary Limited*

*** *Impairments relate only to impairments of property, plant and equipment and intangible assets.*

**** *Includes the operating costs of RCL Foods Limited, RCL Group Services Proprietary Limited and Matzonox Proprietary Limited, losses/gains on the Group's self-insurance arrangement and profit from management fees earned on shared services functions for Siqalo Foods Proprietary Limited.*

SEGMENTAL ANALYSIS CONTINUED

	30 June 2019 R'000	1 July 2018 R'000
ASSETS		
Consumer	**8 586 139**	8 426 106
Sugar & Milling	**8 580 981**	8 918 780
Logistics	**4 044 417**	3 748 581
Unallocated Group assets*	**544 335**	1 062 404
Ugandan operation	**54 027**	53 535
Set-off of inter-segment balances	**(1 403 031)**	(1 218 109)
Total per statement of financial position	**20 406 868**	20 991 297
LIABILITIES		
Consumer	**2 814 566**	2 783 814
Sugar & Milling	**2 271 703**	2 788 927
Logistics	**2 834 216**	2 499 840
Unallocated Group liabilities*	**3 055 388**	2 957 122
Set-off of inter-segment balances	**(1 403 031)**	(1 218 109)
Total per statement of financial position	**9 572 842**	9 811 594

** Includes the assets and liabilities of the Group treasury and shared services companies, waste-to-value operations and consolidation entries.*

REVENUE

	June 2019 R'000	June 2018 R'000
Disaggregation of revenue from contracts[1] with customers		
Revenue from contracts with customers*	**25 887 506**	24 527 961
Consumer	**12 964 966**	12 752 874
Chicken	**6 735 006**	6 693 374
Groceries**	**5 399 804**	5 244 924
Sales between business units	**(24 754)**	(35 497)
Sundry sales – Chicken***	**327 086**	316 052
Sundry sales – Groceries***	**527 824**	534 021
Sugar & Milling	**14 935 260**	13 668 815
Sugar	**5 692 827**	5 419 904
Millbake	**3 953 170**	3 646 531
Animal Feed	**5 433 483**	4 691 376
Sales between business units	**(144 220)**	(88 996)
Logistics	**2 182 820**	1 979 958
Group****	**101 623**	
Sales between segments	**(4 297 163)**	(3 873 686)
Timing of revenue recognition[2]	**25 887 506**	24 527 961
Point in time	**24 599 717**	23 536 361
Over time	**1 287 789**	991 600

* *The prior periods revenue figures have been restated due to a classification error identified on implementation of IFRS 15, 'Revenue from contracts with customers'.*

** *Groceries category includes the Grocery, Beverages, Pies and Speciality business units.*

*** *Sundry sales consist of poultry by-products, sunflower-oil and cake. The sale of these items arise in the course of the Group's ordinary activities but are considered cost recoveries as they are by-products of the Group's core operations.*

**** *Group revenue relates to management fees for shared services performed for Siqalo Foods Proprietary Limited.*

[1] *An agreement between two or more parties that creates enforceable rights and obligations. Can be written, oral or implied by customary business practices.*

[2] *Revenue recognised at a point in time relates to the sale of goods whilst revenue recognised over time relates to the sale of services.*

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PEOPLE
MORE OFTEN

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