For Immediate Release

AFGRI results positions group well for sustained growth in its Foods business

- Continuing HEPS down 18% to 62.9 cents per share
- Strong performance from AFGRI Financial Services
- Difficult agricultural year leads to reduced results from AFGRI Agri Services
- Continued expansion of the Foods sector

Introduction

AFGRI Limited ("AFGRI"), the leading listed South African agricultural services group, announced a decline in headline earning per share in continuing operations of 18%. The results of the continuing operations were impacted by: weaker performance by the retail and equipment divisions in South Africa and Australia, an increased tax rate to 23% from 20%, the consolidation of BEE minorities and a Competition Commission settlement.

Strong growth came from AFGRI Financial Services, underpinned by AFGRI's renegotiation of facilities and the cost benefits of the business' 2010 restructuring strategy.

AFGRI CEO, Chris Venter, said that maize farmers opted to reduce spending on retail and capital equipment, in the face of low maize prices for the most part of 2010/2011, whilst continued exports of grain commodities saw a reduction in the average storage days in the Grain Management division.

AFGRI Agri Services

The Agri Services segment produced a profit before tax of R183 million (2010: R282 million), a decline of 35%. "Low grain prices led to a reduction in retail turnover and a move towards farmer's purchasing lower kilowatt tractors, resulting in a reduction in AFGRI's market share," said Venter. "Severe drought in Western Australia saw the Australian subsidiary reporting its first-ever loss."

Further contributing to the disappointing results, Agri Services was affected by a R15,6 million settlement paid to the Competition Commission relating to its investigation into the recommendation of standard storage tariffs by members of the Grain Silo industry to SAFEX, at the request of SAFEX.

"The 2010/11 agricultural year was erratic," said Venter. "Late pre-season rains, the large 2009/10 summer crop and the strong rand kept grain prices down, and all contributed to an uncertain start to the season, with approximately 13% of the available land transferred from maize to other crops, including soya."

He said heavy post-planting rainfall restricted access to lands for fertilising, and an extended mid-season drought followed by heavy late rains impacted on the final crop size and quality in many of the AFGRI regions. These early season factors led to a reduction in volumes through the Group's retail stores, while lower commodity prices resulted in a reduction in profitability despite the maintenance of retail margins.

Although the Grain Management business began the year with silo stock levels higher than in July 2009, the increased export of grain and the smaller, lower quality summer crop in the main AFGRI areas resulted in lower storage revenues and handling fees in the second half of the year. The provision of value-added services and strict cost control allowed this division to limit the impact on its results.

AFGRI Financial Services

Venter said AFGRI Financial Services' profit before tax of R44 million (2010: R33 million) – an increase of 33% - was made possible through the renegotiation of facilities and the cost benefits of the business' 2010 restructuring.

“During the year, the corporate lending business unit (‘GroCapital’) increased its lending to processors and end-users of agricultural products by 5%. The closer matching of facilities with lending reduced commitment fees. This saving, together with improved margins through appropriate re-pricing, resulted in an increase in the profitability of the corporate debtors’ book,” he said.

The division grew its fee income by expanding international agricultural trade financing services and related foreign exchange products. The discontinuance of an element of the Group’s Grain Trading division and the lower agricultural futures volumes traded on SAFEX saw a decline in contribution from AFGRI’s Broking business. “In future, Broking will provide cost plus brokerage services to corporate clients and complement the retained marketing element of the grain trading business,” said Venter.

In line with AFGRI’s strategy to reduce the size of its farmer lending book, the AFGRI Capital division further reduced the average size of its debtors book by approximately R530 million, or 20% year-on-year. The renegotiation of facilities resulted in a release of cash collateral deposits, lower costs and reduced commitment fees.

AFGRI Foods

During 2010, AFGRI Poultry expanded its Daybreak abattoir’s capacity to 770,000 birds per week. The acquisition of Rossgro’s facility added a further 350,000 birds per week from 1 March 2011. “Capacity utilisation at the two abattoirs since March has averaged 91%,” said Venter.

“The challenge for the industry is the continuing low level of producer prices. Current year prices are only marginally above those of 2010 and lower than 2009. Low selling prices are the result of a variety of factors, including increased production capacity and the high level of imports. It is estimated that currently 3.7 million chickens are imported into South Africa every week, equivalent to nearly four AFGRI Poultry operations. The strong rand continues to support these imports.”

Increased competition from a new independent animal feed manufacturer in the marketplace, and the loss of volumes due to the vertical integration of smaller poultry producers, resulted in a decline in independent volumes for AFGRI Animal Feeds.

Although trading conditions remained difficult during the year, the increased capacity and production contributed to improved results from the Group’s poultry operation.

AFGRI’s Oil and Protein division, Nedan, reported a decline in its profit before tax that may be attributed to lower crushing volumes, as the crush margin turned negative in the second half of the year and energy costs increased.

In total, the AFGRI Foods segment reported a profit before tax of R187 million (2010: R205 million), a decrease of 9%.

Continuing operations

Revenue from continuing operations reached R7,290 million (2010: R7,180 million) – an increase of 2%. This disappointing growth in revenue is attributable to low commodity prices, which impacted on farmer spending, as well as low animal feed and poultry prices – both large contributors to Group revenue. Lower interest rates and a smaller debtors’ book contributed to the low rate of top line growth.

“The Group’s cost of sales from continuing operations increased by 4%, thus reducing the gross profit percentage, excluding interest income, from 26% to 25%. The first-ever loss by the Australian subsidiary accounts for a considerable portion of this lost margin,” said Venter.

“Selling and administration cost increases were well managed, restricting the increase to just over 7%, despite significant increases in administered prices such as electricity and the Competition Commission penalty, as well as higher than normal corporate actions costs.”

Profit after tax from continuing operations amounted to R225 million, down from R407 million in the previous year. Headline earnings per share from continuing operations were 18% down to 62.9 cents per share (2010: 76,8 cents per share).

Venter believes in the strength and positioning of the continuing operations, saying, "The foundations we have in place, will serve AFGRI well into the future."

The Group reported profit from all operations for the year attributable to equity holders of R190 million (2010: R305 million), a decline of 38%.

Discontinued operations

"A lengthy and detailed investigation into the profitability of aspects of AFGRI Trading has concluded that the fully hedged business model is not sustainable," Venter said. "The Group has decided to exit this part of the trading business with the profitability component being integrated into the Grain Management division, previously referred to as the Logistics division."

The loss after tax from discontinued operations of R34 million (2010: profit of R60 million) relates only to the aspect of AFGRI Trading discussed above.

Cash flow

In total, the Group had a decrease in cash and cash equivalents of R961 million, which resulted in an increase in net debt. Aside from the reduced profit, various cash outflows occurred. The closure of a part of AFGRI Trading, the sale of the Tsunami business in 2010 and reduced activity in the retail stores are main contributors to the reduction in creditors, resulting in the outflow of working capital.

R223 million was invested in acquiring Rossgro Chickens (Pty) Ltd and a further R298 million in the expansion of the Group's operations. The Group further funded R207 million to its BEE partners that was used to buy out the remaining minorities.

B-BBEE

"The net impact for the year of the consolidation of the Agri Sizwe Empowerment Trust on profit attributable to equity holders is a loss of R8 million," Venter continues. "Profit after tax from continuing operations totalled R225 million (2010: R407 million), a decline of 45%. Approximately 20% of this decline is due to the consolidation of the Agri Sizwe partnership."

Prospects

"Assuming higher maize prices and the strong rand remain with us through the forthcoming year, maize plantings should return to normal and – weather permitting – a further quality crop is expected. Increased agricultural confidence should improve demand at AFGRI's retail and equipment operations in South Africa and Australia," said Venter.

With the lower opening stock at 1 July 2011, the Grain Management business will need to once again carefully manage its costs and provide value-added services, such as collateral management of storage facilities, where AFGRI's knowledge, experience and proprietary technology can be applied.

"The Foods segment will continue to focus on product quality and customer service. Bedding down this year's two acquisitions and extracting every synergy from the AFGRI value chain will be key focus areas," said Venter.

Expanding further into the foods sector positions AFGRI well to reduce the variability of the Group's results, which for so long have been dependent on agricultural conditions. "Competition Commission approval of the acquisition of the yellow maize milling business of Pride milling is expected before the end of September 2011," he added.

In the Financial Services segment, the focus will be on finalising and implementing the sale of the farmer debtors' book, where AFGRI retains the relationship with farming clients. "This strategy is set to improve the Group's gearing and provide it with a strong base to expand further into the Foods sector," said Venter.

In conclusion, Venter confirmed that three years of restructuring has given AFGRI a solid base for future growth. "The company is now well positioned to move forward with a focused strategy to further develop and grow the Foods segment, and to ensure that the remainder of the businesses contribute positively," he concluded

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