

Unaudited condensed consolidated financial results for the six months ended 31 December 2010 and cash dividend declaration

Group balance sheet (R'millions)

	31 December Unaudited 2010	31 December Unaudited 2009	30 June Audited 2010
ASSETS			
Non-current assets	2 196	2 146	2 080
Property, plant and equipment	1 512	1 346	1 394
Goodwill	37	37	37
Other intangible assets	286	196	241
Investments in associates	36	36	36
Other financial assets	42	41	52
Financial receivables	161	330	204
Deferred income tax assets	122	160	116
Current assets	5 656	6 574	6 375
Inventories	934	979	900
Biological assets	64	53	57
Trade and other receivables	509	898	545
Trade receivables financed by banks	3 290	3 930	3 898
Derivative financial instruments	64	56	50
Current income tax assets	2	27	28
Cash and cash equivalents and cash collateral deposits	793	631	897
Cash collateral deposits	399	459	422
Cash and cash equivalents	399	172	475
Assets of disposal groups classified as held-for-sale	17	508	23
Total assets	7 869	9 228	8 478
EQUITY			
Capital and reserves attributable to equityholders	1 592	1 583	1 602
Share capital	–	–	–
Treasury shares	(90)	(90)	(90)
Incentive trust shares	(151)	(185)	(171)
Fair value and other reserves	(63)	34	43
Retained earnings	1 896	1 824	1 820
Non-controlling interest	6	689	683
Total equity	1 598	2 272	2 285
LIABILITIES			
Non-current liabilities	1 016	364	347
Borrowings	832	151	173
Deferred income tax liabilities	184	213	174
Current liabilities	5 255	6 432	5 846
Trade and other payables	1 164	1 836	1 564
Derivative financial instruments	79	90	73
Current income tax liabilities	15	7	2
Short-term borrowings	–	–	105
Call loans and bank overdrafts	674	573	207
Bank borrowings to finance trade receivables	3 323	3 926	3 895
Liabilities of disposal groups classified as held-for-sale	–	160	–
Total liabilities	6 271	6 956	6 193
Total equity and liabilities	7 869	9 228	8 478
Net asset value per share attributable to equityholders (cents)	446	446	451

Group income statement (R'millions)

	Six months ended 31 December Unaudited 2010	Six months ended 31 December Unaudited 2009	Year ended 30 June Audited 2010
Continuing operations			
Sales of goods and rendering of services	3 507	3 616	6 797
Interest on trade receivables	162	203	383
Total revenue	3 669	3 819	7 180
Cost of sales	(2 552)	(2 687)	(5 006)
Gross profit	1 117	1 132	2 174
Other operating income	16	43	79
Selling and administration expenses	(699)	(689)	(1 340)
Operating profit	434	486	913
Finance costs	(205)	(235)	(439)
Share of profit of associates	–	–	–
Profit before income tax	229	251	474
Income tax expenses	(70)	(37)	(68)
Profit for the period from continuing operations	159	214	406
Discontinued operations			
(Loss)/profit for the period from discontinued operations	(12)	21	61
Profit for the period	147	235	467
Profit for the period attributable to:			
Equityholders of the Company	146	156	305
Non-controlling interest – BEE partners	–	70	129
– Other non-controlling interest	1	9	33
Profit for the period	147	235	467
Number of shares in issue (m)	375,5	373,8	373,8
Weighted average number of shares in issue (m)	328,7	321,0	321,7
Diluted weighted average number of shares in issue (m)	356,5	354,8	354,8
Earnings per share from continuing operations (cents)	47,0	43,5	80,9
(Losses)/earnings per share from discontinued operations (cents)	(2,6)	4,8	13,8
Earnings per share from all operations (cents)	44,4	48,3	94,7
Diluted earnings per share from continuing operations (cents)	43,4	39,4	73,4
Diluted (losses)/earnings per share from discontinued operations (cents)	(2,5)	4,3	12,5
Diluted earnings per share from all operations (cents)	40,9	43,7	85,9

Group statement of comprehensive income (R'millions)

	Six months ended 31 December Unaudited 2010	Six months ended 31 December Unaudited 2009	Year ended 30 June Audited 2010
Profit for the period	147	235	467
Other comprehensive income			
Exchange differences on translating foreign operations	(3)	8	3
Cash flow hedges	2	(24)	(16)
Other comprehensive loss for the period, net of tax	(1)	(16)	(13)
Total comprehensive income for the year	146	219	454
Total comprehensive income attributable to:			
Equityholders of the Company	145	140	292
Non-controlling interest – BEE partners	–	70	129
– Other non-controlling interest	1	9	33
Total comprehensive income	146	219	454

Business segment results (R'millions)

Six months ended 31 December 2010 and six months ended 31 December 2009	AGRI SERVICES		FINANCIAL SERVICES		FOODS		OTHER		TOTALS	
	Retail and mechanisation	Grain Management	2010	2009	2010	2009	2010	2009	2010	2009
Revenue	1 476	1 732	287	283	1 390	1 581	264	296	3 669	3 819
– sale of goods and rendering of services	1 476	1 732	287	283	1 390	1 581	264	296	3 669	3 819
– interest on trade receivables	–	–	–	–	–	–	–	–	–	–
Operating profit/(loss) (before the items below)	58	104	(15)	148	145	136	25	20	490	514
– other operating income	–	–	–	–	–	–	–	–	–	–
– depreciation and amortisation	(6)	(10)	(9)	(9)	(33)	(30)	(2)	(3)	16	43
– allocation of corporate costs	(14)	(14)	(18)	(17)	(17)	(15)	(4)	(3)	(72)	(77)
Operating profit/(loss)	38	80	131	122	121	170	19	14	434	486
Other items of profit and loss										
– fair value adjustment to disposal Group assets	–	–	–	–	–	–	–	–	–	–
– share of profit/(loss) of associates	–	–	–	–	–	–	–	–	–	–
Profit/(loss) before finance costs	38	80	131	122	121	170	19	14	434	486
Finance costs	(16)	(21)	(10)	(8)	(96)	(163)	(37)	(29)	(205)	(235)
Profit/(loss) before income tax	22	59	121	114	25	7	77	68	229	251
Income tax										
Profit after tax	1 509	1 739	898	1 074	3 630	4 719	1 551	1 488	7 869	9 228
Assets	222	231	378	401	554	376	879	873	2 196	2 146
Non-current assets	787	1 284	109	154	37	241	260	269	1 081	1 623
Trade and other receivables	398	191	358	487	2 532	3 619	402	340	3 799	4 828
Cash and cash equivalents	102	33	53	32	507	483	10	6	793	631
Liabilities	722	896	318	962	2 714	3 490	652	552	6 271	6 956
Non-current liabilities	103	5	1	46	19	112	277	133	1 016	364
Other current liabilities	554	891	317	916	102	69	372	419	1 258	2 093
Borrowings to finance trade receivables	–	–	–	–	2 542	3 258	–	–	3 323	3 926
Call loans and overdrafts	65	–	–	–	51	51	3	–	674	573
Capital expenditure	8	26	16	25	12	1	46	101	171	160

Administration

Business address and registered office: AFGRI Building, 12 Byles Bridge Boulevard, Highveld Ext 73, Centurion, Tel (011) 063 2347, Fax (087) 942 5010
Company Secretary: Ms N van Wyk, PO Box 11054, Centurion 0046, Co-operative Centrale Raiffeisen-Boerenleenbank B.A. Trading as Rabo Bank, FirstRand Bank Limited, Hong Kong and Shanghai Banking Corporation, Investec Bank Limited, Land and Agricultural Development Bank of SA Limited, Nedcor Limited, Standard Bank of SA Limited, Standard Chartered Bank **Auditors:** PricewaterhouseCoopers Inc, 32 Ida Street, Menlo Park 0102
Transfer secretaries: Computershare Investor Services (Proprietary) Limited, 70 Marshall Street, Johannesburg 2001, PO Box 61051, Marshalltown 2107, Tel (011) 370 5000
Sponsor: Investec Bank Limited, 100 Grayston Drive, Sandton 2196, PO Box 785700, Sandton 2146

Directorate

Non-executive: JPR Mbau (Chairman), DD Barber, LM Koyana, L de Beer, BA Mabuza, CT Vorster, NL Shirelle
Executive: CP Venter (Chief Executive Officer), JA van der Schyff (Financial Director)

Commentary

The directors of AFGRI Limited ("AFGRI") are pleased to present the unaudited condensed consolidated interim financial results of the AFGRI Group of companies ("the Group") for the six months ended 31 December 2010.

Financial review

Overall operations
The consolidation of the Agri Sizwe Trust makes comparison of selected individual income statement lines somewhat difficult. Headline earnings per share from all operations of 44,6 cents per share reflect a 1,3% decrease for the period.
The consolidation of the Agri Sizwe partnership results in the reallocation of the major portion of the minority interest in the Group to borrowings. For further details refer to note 7 of the notes of these condensed consolidated financial results.

In line with historical trends and the Group's business model, the first six months of the financial year reflect an outflow of cash. During the current period, the outflow of R548 million is some R263 million higher than in the prior year of which R207 million arises from the consolidation of the Agri Sizwe partnership. The majority of the balance was applied to the commissioning of the Pietermaritzburg feed mill and the SAFI implementation.

Excluding the debt to fund the debtors' book of R3 323 million, the Group's net cash position at 31 December is R61 million better than at the same point in 2009. The debt to fund the debtors' book is R635 million less than on 31 December 2009 due to the smaller size of the debtors' book.

Continuing operations

Results have been achieved through the refocusing of the Group on the grain value chain, appropriate and necessary restructurings, and the disposal of non-core and under-performing businesses in the previous period. The increased contribution to profits from AFGRI Foods support management's strategy to expand into this sector. The Foods segment made a 36% contribution to the Group's operating profit before tax, an increase of 5% on 2009. The strategy to expand further into the foods sector is designed to reduce the variability of the Group's results, which for so long have been dependent on agricultural conditions, and to provide shareholders with an added stability of earnings. The results of the AFGRI Agri-Services businesses were impacted by the sustained period of low maize prices following the large crop.

Group revenue from the sales of goods and services from continuing operations reflects a decline of 3%. This is a result of lower volumes in the Group's retail stores, lower farming mechanisation sales and, most importantly, lower commodity prices which drive both the Agri Services' and Foods sector's revenue. Lower interest earned on trade receivables arises from the lower interest rate environment and the managed reduction in the size of the debtors' book. The gross profit percentage, ignoring interest earned on trade receivables, has increased slightly from 31,3% to 31,9%. This increase is due to an improved performance from the Group's Poultry operation.

Other operating expenses for the period at R699 million (2009: R689 million) reduced in real terms. This has been achieved through cost savings arising from the prior year restructuring and improved efficiencies.

During the period under review, the Group's Broad-based black economic empowerment structure was modified in terms of a circular issued on 27 August 2010. The 20% investors in Agri Sizwe, being Itziso Employee Investment (Pty) Ltd and having as beneficiaries the AFGRI Employee Empowerment and the AFGRI Charitable Trusts, acquired the 80% disposed of by the exiting partners. A subsidiary of Agri Capital (Pty) Ltd funded this transaction, advancing Itziso Employee Investment (Pty) Ltd approximately R211 million. This transaction, and specifically the funding of it by the Group, has necessitated the consolidation of the results of the Agri Sizwe Trust and Itziso Employee Investment (Pty) Ltd (under IAS27 and SIC12), resulting in the pre-tax profit share of the Agri Sizwe Trust, amounting to R4,1 million, no longer being reflected as a minority interest, increasing the Group's finance charge by R39,9 million, being the interest charge on the total debt funding attributable to the structure, and increasing the Group's tax charge by R5,2 million. The net profit after tax of R13,3 million has been transferred to a non-distributable reserve. For further details refer to note 7 of the notes of these condensed consolidated financial results.

The profit before income tax from continuing operations of R229 million, including the additional finance charge of R39,9 million on the B-BBEE structure, reflects an 8,8% decrease on the prior year.

The current period's effective tax rate of 31% is higher than the Group's anticipated long term tax rate due to the unavailability of STC tax credits and notable non-deductible expenses arising from corporate activities. As reported before, the prior year tax rate was reduced due to a once off STC benefit.

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. The Group has decided to exit this part of the trading business with the profitable part being integrated into the Grain Management division (previously the Logistics division).

The loss from discontinued operations of R12 million (2009: profit of R21 million) relates only to the aspect of AFGRI Trading discussed above.

Operational review

AFGRI continues to focus its activities in three segments – AFGRI Financial Services, AFGRI Agri Services and AFGRI Foods. With the exception of the restructuring of AFGRI Trading, no other significant changes to the Group's structure and operations have occurred during the period. However, some of the smaller, less material operations (broking in financial services and primary inputs in Agri Services) have been amalgamated with their larger sister divisions. The continuing aspects of AFGRI Trading are reported under the Grain Management division. The consolidation of the Agri Sizwe partnership is reflected in a dedicated column on the segment report and certain logical changes have been made to the names of the divisions underlying the three operating segments.

AFGRI Financial Services

After refocusing and restructuring its activities during 2009 and 2010 the former lending element of the financial services area of AFGRI has shown improved results and performance. Following the credit crisis of late 2008, this division's initial indicators are that maize, the Lowveld, Cape and northern parts of Natal, and focused its efforts on the grain value chain, aligning itself with the Group's strategy. Necessary retrenchments and other cost-cutting initiatives accompanied this realignment. The change in growth strategy following the credit crisis and the focus on reducing the size of the book, allowed the division to right-size its facilities, reducing commitment fees considerably during the six-month period. The smaller staff complement also gave rise to cost savings in other areas.

Despite increasing competition, the specialised (corporate) lending arm of AFGRI Financial Services continues to negotiate and implement specialised credit facilities for major grain processing enterprises, including in- and out-of-silo funding. The activities of this operation underpin grain exports into Africa.

The Group's Africa operation is also reported with AFGRI Financial Services and has performed satisfactorily during the period. While low grain prices have limited its grain trading and storage activities, a total of 79 tractors were sold during the fourth quarter of 2010.

While the lower maize price and lower SAFEX volumes have negatively impacted upon AFGRI Broking's results, the Group's insurance brokerage arm has performed better than the prior comparative period on the back of higher crop insurance sales. These combined activities have generated a profit before income tax of R25 million (2009: R7 million) – a very satisfying 257% increase.

AFGRI Agri Services

Farmers adopted a cautious approach to the 2010/2011 season due to the uncertainty caused by the previous bumper maize crop, the resulting depressed maize prices and the weather. Foliage and weather input purchases were delayed, and initial indicators are that maize plantings declined nationally by approximately 8%. The total area planted is expected to be comparable with the prior year through soya and sunflower substitution. The recent rains and the improvement in international prices on the back of low international stocks, have restored a level of optimism to the sector with expectations for another above-average crop for the 2010/2011 season.

The severe drought in Western Australia has undermined the Group's operation. The strong Australian currency negatively impacts on wheat exports and the purchase of farming mechanisation equipment. At the interim stage, this operation finds itself reporting a loss for the first time.

The final 2009/2010 summer maize crop was estimated at 12,8 million tons, slightly lower than the 13,0 million tons originally estimated. Receipts into the Group's storage facilities have been lower than in the prior year, and the rate of despatch higher, resulting in lower net stocks and marginally shorter storage periods. Winter wheat receipts into the silos are down significantly following an estimated 42% reduction in the crop size. The challenges facing the South African production of this strategic crop need to be addressed in order to support food security. The division's focus on the provision of additional value-added services to producers, together with strict cost control, has resulted in a 6% improvement in its profit before tax.

Overall, the Agri Services segment produced a profit before tax of R143 million (2009: R173 million), a decline of 17,3%.