AVI

SENS document

Financials

Highlights

- First full year as a focused consumer brands company
- Spitz acquired effective July 2005
- Revenue from continuing operations up 14,2% to R5,4 billion
- Operating profit from continuing operations up 10,3% to R517,3 million
- Headline earnings per share from continuing operations 107,2 cents (2005: 108,2 cents)
- Cash generated by continuing operations up 4,5% to R660,2 million
- Total dividend for year of 53 cents per share (2005: 51 cents per share)

Simon Crutchley, chief executive officer, said:

"We produced solid results at National Brands and Indigo Cosmetics and the performance at Spitz was exceptional. Remedial action is underway to address the performance of I&J and RBC and we are confident of an improved performance in these businesses in 2007.

The recovery opportunities inherent in I&J and RBC, the focus on organic growth and innovation and, with time, the benefits resulting from the operating restructure of the group, underpin our confidence that the outlook for AVI both in the year ahead and over the medium term is positive."

Enquiries:

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Group overview

The year to 30 June 2006 was AVI's first full period of operation as a focused consumer brands company, following the sale of Vector Logistics (Pty) Limited and the unbundling of Consol Limited in the previous financial year. The acquisition of A&D Spitz (Pty) Limited ("Spitz") strengthened the company's fashion brand portfolio and underpins our commitment to access branded consumer categories with strong branding intrinsics and growth potential.

Solid improvements from both National Brands Limited ("NBL") and Indigo Cosmetics (Pty) Limited ("Indigo") and an exceptional year from Spitz were offset by a material decline in the operating performances of Irvin & Johnson Limited ("I&J") and to a lesser extent The Real Beverage Company (Pty) Limited ("RBC") and Denny (Pty) Limited ("Denny"). Headline earnings per share declined by 0,9% to 107,2 cents while the total dividend for the year, including a final dividend of 33 cents per share, amounts to 53 cents per share (2005: 51 cents per share).

Consumer demand was strong throughout the year, however selling prices remained at prior year levels for most of the year largely due to a strong and relatively stable rand which supported import competition and a low inflation environment. Despite low inflation there were escalations in raw material, packaging, energy and wage costs that put pressure on margins. This was partly alleviated by the leverage effect of increased sales volumes from the existing fixed cost base which resulted in improved cost efficiency. Selling price increases were achieved in the last quarter of the year to address the impact of cost pressure on margins.

The Board has committed to a key restructuring initiative that will, over time, change the operating structure of the Group. The revised structure is expected to be a key enabler to increase the rate of revenue growth in future years by enhancing the Group's ability to innovate and lead trends and by unlocking logical synergies.

Group financial results

Revenue from continuing operations rose by 14,2% from R4 734,8 million in 2005 to R5 406,6 million in 2006 as a result of the inclusion of Spitz and growth in volumes of some 5% across the balance of the business.

Operating profit rose by 10,3%, from R469,1 million to R517,3 million. The additional operating profit from Spitz and NBL was partially offset by declines at I&J and RBC. The operating margin for the Group from continuing operations was slightly lower than in 2005 at 9,6% (2005: 9,9%).

Net financing costs increased from R8,7 million in the prior year to R33,2 million mainly as a result of the financing costs arising from the Spitz acquisition.

AVI's interests in joint ventures realised a net loss of R12,3 million principally because of restructuring costs at the Australian fish processing joint venture, Simplot.

In contrast to the increase in operating profit, headline earnings of R335,0 million were slightly lower than in 2005. This was largely attributable to the increase in financing costs, the loss recorded by the Simplot joint venture and higher Secondary Tax on Companies.

The capital items for continuing operations mainly comprise an impairment of the shrimp fishing rights held by the Argentinian fishing operation, Alpesca. Resolution of a provincial dispute that was outside of Alpesca's control led to the withdrawal of fishing rights from two of its vessels.

Discontinued operations reflect a profit of R8,0 million from I&J's commodity pelagic operation which was terminated in November 2005 after the sale of the remaining vessels, reduced by an adjustment of R3,3 million to the profit on sale of Vector arising from a potential warranty claim in terms of the sale agreement.

Cash generated by continuing operations remained strong increasing to R660,2 million from R631,6 million in the prior year. Cash and cash equivalents decreased by R120,1 million in 2006. The main cash outflows during the year were the investment in Spitz of R238,2 million after deduction of cash acquired, capital expenditure of R215,1 million, taxation of R186,4 million and dividends which amounted to R179,2 million. The working capital increase of R36,5 million is largely attributable to NBL, where receipt of raw materials close to year end and strong sales in June increased inventories and trade debtors respectively.

NBL and I&J were responsible for the bulk of the capital expenditure with the largest item being a capacity expansion at the Westmead biscuit factory at a cost of R29,6 million. The majority of capital expenditure in 2006 was to maintain operations.

Balance sheet gearing, after the Spitz acquisition, is still low and AVI is well positioned to fund its acquisitive ambitions.

Segmental review (continuing operations)

	Revenue			Operating profit		
	2006 Rm	2005 Rm	% change	**2006 Rm**	2005 Rm	% change
Food & beverage brands	**4 502,9**	4 257,4	5,8	**344,0**	413,0	(16,7)
National Brands	**2 606,7**	2 434,9	7,1	**337,0**	301,1	11,9
I&J	**1 432,5**	1 378,3	3,9	**5,9**	84,3	(93,0)
Denny	**254,7**	226,9	12,3	**21,5**	27,8	(22,7)
Real Beverage	**209,0**	217,3	(3,8)	**(20,4)**	(0,2)	
Fashion brands	**871,4**	461,9	88,7	**165,6**	47,0	252,3
Indigo	**479,6**	461,9	3,8	**50,5**	47,0	7,4
Spitz	**391,8**			**115,1**		
Corporate	**32,3**	15,5	108,4	**7,7**	9,1	(15,4)
Total	**5 406,6**	4 734,8	14,2	**517,3**	469,1	10,3

Food and beverage brands

NBL increased revenue by 7,1% in 2006 on the back of higher volumes in most categories and particularly in biscuits which enjoyed volume growth of 11,2%. Selling prices were, in general, constrained by the low inflationary environment and the impact of a strong and relatively stable rand. The gearing effect of higher volumes combined with improved cost efficiency led to operating profit increasing by 11,9%, from R301,1 million to R337,0 million.

Although revenue from **I&J** increased by 3,9%, results were severely impacted by the poor performance of the South African fishing operations which resulted in a marginal operating profit of R5,9 million compared to R84,3 million in 2005.

Key factors giving rise to the poor performance of the South African fishing operation were:

- Low hake catch rates that led to a significant increase in fishing effort, and therefore cost, per ton of fish landed;
- An ongoing prevalence of small fish that reduced sales of premium margin products;
- Rising fuel costs.

Prices in the South African market were on average 8% higher than in 2005, which partly recovered the higher cost of fish without having a negative effect on retail market share. Export prices were slightly higher than 2005, however, the strength and relative stability of the rand prevented any material benefit arising on export sales.

The Argentinian fishing operations, Alpesca, improved operating performance relative to 2005 mainly because of good hake catch rates. However overall operating performance was disappointing, with the impact of better fishing offset to a large extent by increased fishing-related incentives, high fuel costs and a difficult labour environment.

AVI believes that there is significant opportunity to address and improve controllable aspects of I&J's operating model. Much good work has already been done in a short space of time, however the complete process of review and improvement is likely to continue into 2008.

The announcement of the allocation of Long Term Rights ("LTR") for the South African fishery was made in January 2006, and finalised in August 2006 after an appeal process. In percentage terms, I&J retained 94% of its 2005 hake quota, however a 5% reduction in the 2006 hake Total Allowable Catch brings the total reduction for the 2006 calendar year to 11%. Whilst these final allocations remain open to legal challenge, the possibility of any further material decline in I&J's quota appears low. The certainty of the LTR substantially improves our ability to make confident decisions regarding the securing of enhanced profitability for I&J.

Denny increased sales volumes by 5,6%. Profitability was constrained by planned investments in sales and marketing to support the long-term strength of the Denny brand and to a lesser extent by lower fresh mushroom selling prices. Operating profit amounted to R21,5 million compared to R27,8 million attributable to AVI in the prior year.

RBC had a disappointing year, with revenues slightly down on the prior year and an operating loss of R20,4 million. The performance was primarily the result of poor management decisions with regard to brand positioning and distribution which reduced market share, dropped service levels and materially increased distribution and other costs.

Corrective action has been taken with new management appointed who are implementing a revised distribution strategy which should improve service levels and the brand positioning is being remedied. While 2006 has borne an abnormal level of costs, little of the benefits arising from corrective actions had accrued by the end of the period. The main benefits of an improved cost base and increased volumes are expected to build steadily during 2007 and contribute to a material improvement in operating performance.

Fashion brands

Indigo grew revenues by 3,8%, principally on the back of increased domestic volumes. Marketing investment in the Lentheric Australian venture was curtailed in line with mediocre sales. Following a difficult first half with pressure on selling prices and volumes, operating profit accelerated in the second semester with a good Christmas sell-through. Operating profit for the full year increased by 7,4% to R50,5 million.

Spitz recorded an impressive performance in 2006, with revenue increasing by 52% and operating profit by 49% compared to the equivalent period (pre-acquisition) in 2005. Revenue growth was all volume related, with same store sales growth of 30% and eight new stores opened during the year.

Dividends

In accordance with the Group's dividend policy of 2 times cover, a final dividend of 33 cents per share has been declared, bringing the total dividend for the year to 53 cents per share (2005: 51 cents per share).

Black Economic Empowerment

AVI recognises the social imperative to embrace and support transformation in South Africa. Having considered various Black Economic Empowerment opportunities in the past financial year, the AVI Board has resolved to pursue a broad-based ownership opportunity for all black employees throughout the Group. Details of the proposed scheme will be distributed to shareholders with the annual report later this month, and the scheme will be presented to shareholders for approval at the annual general meeting on 18 October 2006.

Outlook

Notwithstanding the hazards of predicting economic prospects, it is anticipated that consumer spending will continue to reflect South Africa's generally healthy economic outlook. This, coupled to AVI's strong brand portfolio, the recovery opportunities inherent in I&J and RBC, the focus on organic growth and innovation and with time the benefits resulting from the restructuring of the Group, underpin confidence that the outlook for AVI both in the year ahead and over the medium term is positive.

Angus Band
Non-Executive Chairman

Simon Crutchley
CEO

11 September 2006

Balance sheet

as at 30 June

	2006 Rm	2005 Rm
ASSETS		
Non-current assets		
Property, plant and equipment	**1 182,4**	1 143,2
Intangible assets and goodwill	**1 041,7**	420,8
Joint ventures	**167,6**	162,8
Other investments	**95,4**	89,8
Deferred taxation	**100,8**	102,0
	2 587,9	1 918,6
Current assets		
Non-current assets held for sale	**26,3**	24,5
Inventories	**578,2**	500,0
Trade and other receivables	**883,2**	786,8
Cash and cash equivalents	**335,8**	448,7
	1 823,5	1 760,0
Total assets	**4 411,4**	3 678,6
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	**15,8**	15,9
Share premium	**4,7**	–
Treasury shares	**(40,8)**	(51,7)
Premium on minority equity transactions	**(2,7)**	(2,7)
Reserves	**(13,2)**	(22,3)
Retained earnings	**2 376,1**	2 227,2
Minority interests	**(8,5)**	(2,9)
Total equity	**2 331,4**	2 163,5
Non-current liabilities		
Interest-bearing borrowings	**192,8**	112,4
Deferred taxation	**130,1**	134,3
Provisions	**277,7**	268,4
	600,6	515,1
Current liabilities		
Trade and other payables	**1 011,7**	885,8
Corporate taxation	**56,2**	35,7
Current borrowings	**71,5**	78,5
Deferred purchase consideration – Spitz	**340,0**	–
	1 479,4	1 000,0
Total equity and liabilities	**4 411,4**	3 678,6

Income statement

for the year ended 30 June

	2006 Rm	2005 Rm
CONTINUING OPERATIONS		
Revenue	5 406,6	4 734,8
Cost of sales	3 263,5	2 869,7
Gross profit	2 143,1	1 865,1
Selling and administrative expenses	1 625,8	1 396,0
Operating profit before capital items	517,3	469,1
Income from investments	16,5	30,9
Finance costs	(49,7)	(39,6)
Share of equity accounted (loss)/earnings of joint ventures	(12,3)	1,2
Capital items	(10,9)	(21,8)
Profit before taxation	460,9	439,8
Taxation	143,1	124,7
Profit from continuing operations	317,8	315,1
DISCONTINUED OPERATIONS		
Revenue	13,9	1 794,9
Cost of sales	15,0	1 062,9
Gross (loss)/profit	(1,1)	732,0
Selling and administrative expenses	1,0	360,6
Operating (loss)/profit before capital items	(2,1)	371,4
Income from investments	–	10,8
Finance costs	–	(4,2)
Capital items	6,8	18,5
Profit before taxation	4,7	396,5
Taxation	–	120,8
Profit from discontinued operations	4,7	275,7
Profit before net gain on disposal of discontinued operations	322,5	590,8
Gain on disposal of discontinued operation	–	306,9
Costs relating to the unbundling of a discontinued operation	–	(6,4)
Profit for the year	322,5	891,3
Attributable to:		
Equity holders of AVI	327,6	873,5
Minority interests	(5,1)	17,8
	322,5	891,3
Statistics for continuing operations		
Earnings per share (cents per share)	103,4	198,6
Diluted earnings per share (cents per share)	102,7	196,1
Headline earnings per share (cents per share)	107,2	108,2
Diluted headline earnings per share (cents per share)	106,6	106,9

Notes:
1 Basic earnings and headline earnings per share are calculated on a weighted average of 312 373 484 (2005: 311 590 025) ordinary shares in issue
2 Diluted earnings and headline earnings per share are calculated on a weighted average of 314 331 670 (2005: 315 536 786) ordinary shares in issue, after taking into account the relevant number of incentive scheme shares and options in issue.

Cash flow statement

for the year ended 30 June

	2006 Rm	2005 Rm
CONTINUING OPERATIONS		
Operating activities		
Cash retained from operating activities	**245,4**	301,3
Cash generated by operations	**660,2**	631,6
Cash flow from investments	**17,0**	30,9
(Increase)/decrease in working capital	**(36,5)**	16,3
Cash generated by operating activities	**640,7**	678,8
Interest paid	**(29,7)**	(39,6)
Taxation paid	**(186,4)**	(170,0)
Cash available from operating activities	**424,6**	469,2
Dividends paid	**(179,2)**	(167,9)
Investing activities	**(460,0)**	(394,5)
Property, plant and equipment – additions	**(215,1)**	(207,1)
Proceeds from disposals	**4,9**	6,6
Net investment in property, plant and equipment	**(210,2)**	(200,5)
Intangible assets purchased	**(19,2)**	(0,1)
Investments	**(230,6)**	(193,9)
– acquisitions of subsidiaries and businesses	**(238,2)**	(174,1)
– associated companies, joint ventures and other investments	**7,6**	(19,8)
Financing activities	**57,2**	(308,8)
Net increase/(decrease) in shareholder funding	**10,1**	(213,5)
Non-current borrowings	**54,2**	(101,4)
– raised	**72,8**	–
– repaid	**(18,6)**	(101,4)
Current funding – net (decrease)/increase	**(7,1)**	6,1
– overdrafts and current borrowings (decrease)/increase	**(7,1)**	6,1
DISCONTINUED OPERATIONS	**37,3**	203,9
Cash flows from operating activities	**4,2**	335,0
Cash flows from investing activities	**33,1**	(131,1)
Acquisition of minority equity interest in discontinued operation	**–**	(526,4)
Cash flow from disposal of discontinued operation	**–**	505,8
Decrease in cash and cash equivalents	**(120,1)**	(218,7)
Cash and cash equivalents at beginning of year	**448,7**	674,5
	328,6	455,8
Net decrease as a result of the translation of the cash equivalents of foreign subsidiaries at beginning of year	**7,2**	(7,1)
Cash and cash equivalents at end of year	**335,8**	448,7

Statement of changes in equity

Year ended 30 June

2006	Share capital and premium Rm	Treasury shares Rm	Reserves Rm	Retained earnings Rm	Premium on minority equity trans- actions Rm	**Total Rm**	Minority interests Rm	**Total equity Rm**
GROUP								
Balance at beginning of year	15,9	(51,7)	(22,3)	2 227,2	(2,7)	2 166,4	(2,9)	2 163,5
Recognised income and expense								
Profit for the year	–	–	–	327,6	–	327,6	(5,1)	322,5
Foreign currency translation differences	–	–	32,6	–	–	32,6	–	32,6
Cash flow hedging reserve	–	–	(28,0)	–	–	(28,0)	–	(28,0)
Share-based payments	–	–	4,5	–	–	4,5	–	4,5
Transactions with shareholders								
Dividends paid	–	–	–	(178,7)	–	(178,7)	(0,5)	(179,2)
Issue of ordinary shares	4,7	(4,7)	–	–	–	–	–	–
Disposal of own ordinary shares by Company's Share Trusts (net)	–	15,6	–	–	–	15,6	–	15,6
Redemption of convertible redeemable preference shares	(0,1)	–	–	–	–	(0,1)	–	(0,1)
Balance at end of year	**20,5**	**(40,8)**	**(13,2)**	**2 376,1**	**(2,7)**	**2 339,9**	**(8,5)**	**2 331,4**

Supplementary notes to financial statements

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the interpretations adopted by the International Accounting Standards Board ("IASB") and the requirements of the South African Companies Act.

Basis of preparation

The annual financial statements are prepared in millions of South African Rands ("Rm") on the historical cost basis, except for the following assets and liabilities which are stated at their fair value: derivative financial instruments and biological assets.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The accounting policies of the group have been applied consistently to the periods presented in the consolidated financial statements.

The group has adopted Circular 9/2006 – Transactions giving rise to adjustments to revenue/purchases. Settlement discounts, rebates and other forms of discounts allowed/received are estimated at the time of sale/purchase and presented as a reduction in revenues or increase in the cost of inventories or services acquired.

Previously settlement discounts were estimated at the time of sale but were presented as an operating expense of the group on the basis that prompt payment by customers generated the discount and not the sale of goods.

In accordance with Circular 9/2006 settlement discounts granted to customers have been reclassified from selling and administrative expenses to revenue. The adjustment has been made in accordance with IAS 8 – Accounting Policies, changes in accounting estimates and errors, with the necessary restatement of comparative figures. The effect of the change was to reduce revenue and selling and administrative expenses by R61,1 million (2005: R55,6 million).

Determination of headline earnings

	2006 Rm	2005 Rm
Profit for the period attributable to equity holders of AVI	**327,6**	873,5
Total capital items included in earnings	**(5,3)**	300,2
Net gain on disposal of discontinued operations	**–**	300,5
Net surplus on disposal of investments, properties, vessels and plant and equipment	**2,2**	15,2
Impairment of goodwill	**–**	(18,5)
Impairment of fishing rights	**(6,3)**	–
Impairment of equipment	**(7,5)**	–
Taxation attributable to capital items	**6,3**	0,2
Minority interest in capital items	**–**	2,8
Headline earnings	**332,9**	573,3
Attributable to:		
Continued operations	**335,0**	337,2
Discontinued operations	**(2,1)**	236,1
	332,9	573,3

Corporate activity

Effective 2 July 2005, AVI Limited acquired 60% of the shares in A&D Spitz (Pty) Limited, an owner and retailer of leading footwear brands. Incorporated into the initial purchase agreement AVI acquired a call option and the vendors a put option to acquire and sell respectively the remaining 40% equity interest.

In terms of IFRS 3 – Business Combinations, there is a deferred purchase consideration for the remaining 40%, and a liability is raised in terms of IAS 32 – Financial Instruments. The business was thus considered a wholly owned subsidiary from 2 July 2005 and no minorities were recognised.

There was no other significant change to investments, except for I&J exiting the pelagic fishing business.

Contingent liability

The South African Revenue Service ("SARS") has issued revised assessments on a foreign subsidiary for taxes plus penalties and interest in respect of the tax years previously assessed, 1998 through 2003. The additional taxes assessed by SARS amount to R49,4 million. The total amount in terms of the assessments including penalties and interest, is R208,2 million.

Were assessments to be issued for the 2004 to 2006 tax years on the same basis applied in the assessments received, the total amount of tax payable in respect of these years would be R26,2 million, excluding penalties and interest.

The Company filed a notice of appeal against the 1998 to 2003 assessments on 11 April 2005 and SARS provided the statement of grounds of assessment on 10 August 2006. The company has commenced preparation of its statement of grounds of objection. The issues in dispute are of a complex nature and it is anticipated that the matter will remain unresolved for an extended period.

Post-balance sheet events

Apart from the following transaction, no significant events have occurred since the balance sheet date.

In June 2006 it was agreed with the minority shareholders in A&D Spitz (Pty) Limited to accelerate the timing of the call options, which were planned to become exerciseable from 30 June 2007 in terms of the original purchase agreement. Accordingly, the Company acquired the remaining 40% of equity shares of A&D Spitz (Pty) Limited it did not already own with effect from July 2006. The final payment of R340,6 million (including interest of R0,6 million) was made on 10 July 2006.

At the forthcoming annual general meeting, shareholders will be asked to approve a broad-based black economic empowerment initiative.

Dividend declaration

Notice is hereby given that a final ordinary dividend No. 64 of 33 cents per share for the year ended 30 June 2006 has been declared payable to holders of ordinary shares. The salient dates relating to the payment of the dividend are as follows:

	2006
Last day to trade *cum* dividend on the JSE Limited ("JSE")	Friday, 29 September
First trading day *ex* dividend on the JSE	Monday, 2 October
Record date	Friday, 6 October
Payment date	Monday, 9 October

In accordance with the requirements of STRATE, no share certificates may be dematerialised or rematerialised between Monday, 2 October 2006 and Friday, 6 October 2006, both days inclusive.

Dividends in respect of certificated shareholders will be transferred electronically to shareholders' bank accounts on payment date. In the absence of specific mandates, dividend cheques will be posted to shareholders. Shareholders who hold dematerialised shares will have their accounts at their Central Securities Depository Participant ("CSDP") or broker credited on Monday, 9 October 2006.

Report of the independent auditors

The unmodified opinion of KPMG Inc., the independent auditors, on the financial statements for the year ended 30 June 2006, dated 8 September 2006, is available for inspection at the registered office of the Company.

Annual report

The annual report for the year ended 30 June 2006 will be posted to shareholders on or about Wednesday, 27 September 2006. The financial statements will include the notice of the annual general meeting of shareholders to be convened on Wednesday, 18 October 2006.

AVI

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