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PRESS RELEASE

Japfa reports Core PATMI w/o Forex[1] of US$3.4 million in 2Q2017 amidst a weak swine market in Vietnam

- *Decline in the Group's profitability was largely due to a substantial loss in Vietnam where ASPs for swine continued to slide to levels well below operating costs*
- *Business fundamentals remain intact; diversified and vertically integrated business model to drive the business forward*

Singapore, 27 July 2017 – Leading agri-food company, **Japfa Ltd** ("Japfa", or together with its subsidiaries, the "Group") today posted negative PATMI of US$3.4 million, against stable revenue of US$790.2 million for the second quarter ended 30 June 2017 ("2Q2017").

The Group's wholly-owned subsidiary, Japfa Comfeed Vietnam Limited Company ("JCV") recorded a substantial loss in Vietnam, as the average selling prices ("ASPs") of swine continued to slide to levels well below operating costs. The weak price environment for swine that started in the fourth quarter of 2016 ("4Q2016") was a result of China's import restrictions, which significantly reduced demand in Vietnam's swine market.

However, stripping off the fair value loss on biological assets and forex effect, a positive Core PATMI w/o Forex of US$3.4 million was recorded in 2Q2017.

"Cyclicality and downturns are expected in any agri-business. They are beyond our control, and have a direct impact especially on the ASPs of our breeding and fattening livestock products. However, our strong fundamentals, along with the strength of our business model across five proteins and five countries will continue to drive our business forward. The downturn in Vietnam was mitigated by PT Japfa Tbk and our Dairy operations. We remain focused in building on our core competencies, and sharpening our position as one of the most competitive and efficient producers in the markets that we operate in," said Mr Tan Yong Nang, Chief Executive Officer of Japfa.

[1] We derived "**Core PATMI**" from "Profit Attributable to Owners of the Parent, Net of Tax" by excluding changes in fair value of biological assets (net of tax) and derivatives and by excluding extraordinary items (namely the gain/loss from the buyback of USD bonds in PT Japfa Tbk) attributable to owners of the parent.

"**Core PATMI w/o Forex**" is an estimate derived from Core PATMI by excluding foreign exchange gains/losses (before tax) attributable to the owners of the parent. As the majority of the foreign exchange gains/losses are unrealised and arises from the translation of USD bonds in PT Japfa Tbk, which has no tax implication, we have not made an estimate of the tax impact on foreign exchange gains/losses.

KEY FINANCIAL HIGHLIGHTS

US$ million

	2Q2016	2Q2017	y-on-y % change	1H2016	1H2017	y-on-y % change
Revenue	**782.1**	**790.2**	**+1.0%**	**1,499.7**	**1,526.4**	**+1.8%**
Operating profit	107.8	52.1	-51.7%	163.0	88.5	-45.7%
Operating profit margin	13.8%	6.6%	-7.2ppt	*10.9%*	*5.8%*	*-5.1ppt*
EBITDA[2]	132.1	70.9	-46.4%	209.2	136.1	-34.9%
Profit After Tax	69.6	15.4	-77.9%	106.7	25.4	-76.2%
PATMI	44.6	(3.4)	-107.6%	68.0	(1.3)	-102.0%
Core PATMI w/o Forex	**51.9**	**3.4**	**-93.5%**	**72.6**	**10.7**	**-85.3%**

In 2Q2017, the Group's operating profit decreased 51.7% year-on-year ("y-on-y") to US$52.1 million. This was primarily due to the operating loss in Vietnam, and a lower operating profit by PT Japfa Tbk's poultry-feed business which had recorded exceptionally high margins in the second quarter ended 30 June 2016 ("2Q2016").

PT Japfa Tbk

Higher sales volumes for feed, day-old chicks ("DOCs") and broilers, brought about by the Ramadan effect, lifted PT Japfa Tbk's 2Q2017 revenue up 5.7% y-on-y to US$562.9 million in 2Q2017. Operating profit declined 30.3% to US$52.8 million y-o-y.

When compared to 2Q2016, PT Japfa Tbk recorded lower profitability mainly due to the exceptionally high poultry-feed margins recorded in 2Q2016. Operating profit generated by the poultry feed business fell US$10.0 million, from US$50.4 million in 2Q2016 to US$40.4 million in 2Q2017. The feed business, which is a key profitability pillar for the Group, continued to generate healthy profits and margins, albeit at levels lower than 2Q2016.

Stable ASPs for DOCs, along with high sales volume drove up DOC's operating profit. As for broilers, although the weak ASPs in the first quarter of 2017 ("1Q2017") recovered in 2Q2017 with the onset of Ramadan, profit margins were not as strong as last year, resulting in a US$3.9 million dip in broiler's operating profit compared to the corresponding period last year.

The beef business registered a slight operating loss in 2Q2017 due to the government's effort to keep beef prices low during Ramadan.

Overall, while profit after tax declined 41.5% y-on-y to US$30.3 million in 2Q2017, it was significantly higher quarter-on-quarter, when compared to profit after tax of US$7.8 million recorded in 1Q2017.

Over the last six months, PT Japfa Tbk successfully issued US$250 million in USD Bonds, as well as re-tapped its IDR Bond programme. The coupons are now lower than the previous issuances of USD Bonds and IDR Bonds by PT Japfa Tbk. Proceeds from these new issuances were primarily used to repay the old bonds. In 2Q2017, the Group fully repaid its 2013 USD Bond, which gave rise to a one-off early redemption cost of US$4.4 million in the reporting quarter.

[2] We define "**EBITDA**" as profit before tax from continuing operations, excluding interest income, changes in fair value of biological assets and marketable securities, foreign exchange adjustments gains/(losses), finance costs, depreciation of property, plant and equipment, depreciation of investment properties and amortisation of intangible assets.

In 2Q2017, the Indonesian Ministry of Agriculture issued its third culling programme this year. Three million parent stock were mandated to be culled during a 3-week period from 21 June 2017. This forms part of the government's continued efforts to try to align the overall poultry production with market demand.

Animal Protein Other[3]

Animal Protein Other ("APO") recorded a 20.7% decline in revenue to US$111.5 million y-on-y, mainly due to the Vietnam operations.

In 2Q2017, the Group's wholly-owned Vietnam operations, JCV, continued to incur losses which were substantially larger than its reported loss for 1Q2017. ASPs for swine in Vietnam dropped a further 29% from 1Q2017 to levels well below operating costs, resulting in JCV recording an operating loss of US$16.2 million in 2Q2017, compared to an operating profit of US$13.0 million in 2Q2016.

To improve its operational productivity in Vietnam, JCV has started culling the less productive swine parent stocks, which will reduce its overall parent stock population by approximately 15%. JCV has also disposed older swine fattening stocks that were past their market size weight.

The industry has observed a pick-up in Vietnam's swine prices since the start of July 2017, but it is still too early to conclude that this marks the start of market recovery.

In Myanmar, the feed business continued to witness volume growth which provides a stable base of profits. In India, the focus remains on growing the feed business.

Dairy

Despite the continuing pressure on raw milk prices, EBITDA and Core PATMI w/o Forex for the Dairy core pillar remained strong at US$17.6 million and US$6.8 million, respectively, driven by higher milk yields and sales volume in 2Q2017.

In China, the Group remained focused in its strategic expansion of the Dairy core pillar. As at 30 June 2017, milkable cows in China rose 28% y-on-y to 39,407 heads, while milk yields expanded year-on-year from 36.9 Kg/head/day to 38.4 Kg/head/day. In the Indonesian dairy farms, milk yields also improved year-on-year from 31.9 Kg/head/day to 33.8 Kg/head/day.

Meanwhile, the new dairy processing plant in Desa Palaan, Malang, East Java commenced operations in May 2017. With an annual capacity of 32 million litres, it has lifted Greenfields Indonesia's total processing capacity to 72 million litres per year. The capacity expansion firmly establishes Greenfields as the largest fresh milk producer in Indonesia, well-positioning the Group to benefit from the increasing per capita milk consumption in the country.

Consumer Food

In 2Q2017, a weaker purchasing power in Indonesia had resulted in a lower demand for the Group's Ambient and Real Good UHT products sold in the mass market. In addition, the Ambient sector is facing heightened competition from other producers.

[3] Animal Protein Other refers to the animal protein operations in Vietnam, Myanmar, India and China.

Consequently, the Consumer Food business recorded a 11.2% y-on-y decline in revenue to US$47.0 million and an operating loss of US$4.3 million, on the back of lower sales volumes for Ambient snacks and Real Good UHT milk.

Despite the challenging environment, the Group believes that it has laid the right foundation for the Consumer Food business. The Group will also continue to tap the changing consumer dynamics for downstream consumer food products by investing strategically to build up its consumer brands in Indonesia and Vietnam.

LOOKING AHEAD

Leveraging its core competencies, the Group will continue to strengthen its core pillars and focus on growing its presence in emerging Asian markets.

"We are in the right markets, and we remain confident in our mid- to long-term growth prospects due to the growing animal protein consumption in emerging Asian economies. As disposable income grows, consumers will choose to eat more meat, which is relatively more costly. As one of the most competitive and efficient protein producers, we are well-poised to benefit from this trend," said Mr Tan.

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ABOUT JAPFA LTD

Japfa Ltd is a leading agri-food producer focused on feeding emerging Asian markets. The Group produces protein staples such as chicken, beef and milk, as well as protein-based consumer food products. From its headquarters in Singapore, Japfa operates its businesses in the fast growing economies of Indonesia, China, India and Indo-China. Backed by two generations of farming experience, it operates industrial-scale farms which are vertically integrated with its downstream food processing operations.

This press release is issued on behalf of Japfa Ltd by Kreab Singapore. For media queries, please contact:
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