

## Salient Features

	6 months ended 31 Dec 2011 unaudited USD '000	Year on year growth %
Volumes (mt)	194 212	▲ 18%
Revenue	116 144	▲ 24%
Operating profit	5 793	▲ 26%
Profit for the period	3 604	▲ 26%
Basic earnings per share from continuing operations (cents)	5.24	▲ 27%
Interim dividend per share (cents)	1.20	▲ 71%

## Chairman's Statement

### Introduction

The macro-economic and socio-political environment during the first six months of our 2012 financial year remained favourable for normal trading in our business. The reinstatement of import duties that are aimed at protecting our local industry was a particularly significant development that afforded our business time to enhance our competitiveness within the region. In addition, the widening of individual tax bands contributed to an improvement in household disposable incomes.

The Group has continued to invest into its core manufacturing platform in order to enhance both efficiencies and capacity for future growth. For the period under review, the Group invested \$1.9m on capital expenditure and \$1.1m on repairs and maintenance. We anticipate to capitalise on the growth in disposable incomes that will emanate from shifts in government policy that encourage increased economic activity across the country's landscape.

It remains critical for the country's macro-economic recovery for government policy to continue to support the local primary agriculture sector as well as the secondary agro-processing industry. In this regard, the Group commends government's policy to reinstate tariff measures that were instituted to afford the local agro-processing industry an opportunity to re-tool its manufacturing base and improve its competitiveness against under-priced imports.

During the period under review, Tiger Brands Ltd increased its shareholding in National Foods to 37.45%. This positive development is not only a reflection of confidence in the prospects of National Foods' investment story, but also affords our Group access to technical support from Tiger Brands' globally competitive capabilities.

Capacity utilisation across our facilities improved to 40% for the period under review. As a consequence, the cost per unit of manufactured product dropped by 14% compared to prior year and this has enabled us to redirect these savings into more competitive pricing as well as re-investing into major maintenance projects across our manufacturing platform.

For the first half of the 2012 financial year, the Group delivered a turnover growth of 24% on the back of an overall volume growth of 18%, an EBITDA growth of 26% and an operating margin of 4.3% and an annualised return on invested capital (ROIC) of 16.5%.

### Overview of Financial Performance

Our strategy remains that of growing our volumes through increased penetration and consumption. Good progress was achieved in this regard during the reporting period as reflected in a pleasing set of our key financial performance indicators.

Management continued with the strategic interventions of right-sizing and re-tooling the business whilst contending with unabated cost push across our value chain. The increases in some costs at above the current inflation figures and utility costs in particular, remain a concern in our attempts to provide products at affordable and competitive prices to our customers.

Notwithstanding the challenges, the Group managed to restrain price increases for the period under review and consequently, the average selling price was little changed at \$598 per ton. Most categories showed growth with some pleasing improvements over the first half of 2011. Overall volumes sold were 194,212mt generating turnover of \$116.1m.

The benefits of improved efficiencies and a better product mix led to a 5% improvement in the gross profit. Gross profit margin stabilised at an acceptable 23%.

Total operating cost per ton reduced by 13% on the back of increased sales volumes, improved operational efficiencies and benefits arising from the restructuring of the Group's operating model. The Group recorded a profit after tax for the half year of \$3.6m which is a growth of 26% over the corresponding prior period.

The balance sheet grew by 7% to \$46.6m and the working capital investment increased as a result of the increased cash requirements to fund increased sales during the peak December 2011 trading period. The net debt position ended at \$2.9m representing a debt to equity ratio of 6.3% for the Group. The Group remains positive about its capacity to support both its short and long-term funding needs.

### Operations Overview

The Mutare rice plant was successfully commissioned in August 2011 and the Bulawayo flour mill was re-opened in October 2011 and by the end of December 2011, six out of thirteen factories were operating.

A reverse osmosis water treatment plant which provides Harare Stockfeeds better quality water and a 6,000mt per month roughage plant went on stream. This will provide us with substantial beef and dairy feed production capacity.

A houseboat and five small properties were sold generating \$260k which is part of an enterprise wide intention of disposing non-core or non-performing assets and reallocate the balance sheet to core-competencies that can provide the targeted returns to shareholders. To date the Group has generated about \$5.7m from disposal of non-core assets and these have been utilised mostly for capital expenditure projects.

Ten out of the twenty four depots are now remotely linked to the Group's main computer system and a demand planning system was successfully installed within the sales unit to enable the alignment of production processes with market requirements.

### Flour Milling

Work undertaken on improving quality, consistency and pricing of flour has been successful and National Foods is the market leader in the category for both bakers' flour and prepacked flour. Sales were 33% above prior period but gross profit percentage (GP%) was down to 18% as we sacrificed margin to preserve market share. The profitability was below expectation due to the gross margin erosion and the re-opening of the Bulawayo mill at initial low capacity utilisation.

A 5% import duty was introduced in January 2012 on imported flour which may be enough to kick start volumes in the same way maize meal volumes have increased.

The Group has sufficient stocks of the correct wheats to produce the desired grist and to meet any increases in demand. Our flour is now at an internationally acceptable quality. As part of the Group's strategy to support local primary agriculture, the Group purchased 80% of the locally produced wheat and is satisfied with the quality of the crop that was received.

### Maize Milling

The business' strategy continued to yield positive results as the consumer responded well to a correctly priced product of corresponding quality available throughout the country. Volumes grew by 75% compared to prior year. Revenue increased by 82%, along with a slightly improved mix between Pearlenta and roller meal. This business contributed significantly to Group profitability.

The Group has identified opportunities to further enhance conversion efficiencies, strengthen brand equities as well increase the level of market penetration for the maize milling business.

### Stockfeeds

The Stockfeeds volumes decreased versus prior period primarily as a result of the closure of our Bulawayo plant. Following the re-opening of the Bulawayo flour mill, the Bulawayo Stockfeeds plant will also be re-opened. Revenue however grew by 12% on the back of an increase in average per ton selling price which is a direct function of raw material price increases, particularly the prices of milling offals. Overall profitability dropped by 55% from prior year due to increased raw material prices and increased utility costs which squeezed margins.

The beef and dairy roughage plant was commissioned in November 2011 to allow the main plants to produce poultry feeds for longer periods at maximum efficiency. Investment into a new control system was approved. The reverse osmosis water treatment plant was commissioned and is now providing improved quality of water necessary for product quality. These initiatives coupled with our technical relationship with Invivo of France, have delivered improvements in both the quality and consistency of our products.

Management will now focus on achieving production, procurement and distribution efficiencies in an endeavour to reduce prices and gain market share. Stock holding of finished goods will be increased to pre-empt the impact of power outages.

Capital Foods and Safco remained profitable albeit on stagnant volumes. Management will further focus on growing product range and market penetration for these two brands.

The medium term prospects for the Stockfeeds business are positive and the Group plans to re-tool the plant to international standards in order to achieve the correct quality with improved levels of operating efficiency.

### FMCG

The FMCG business was further rationalised in the period under review to focus on the down packing of rice, salt, small grains and the effective distribution of pastas, spreads and baked beans.

Volumes sold were 16% below the prior year primarily because we exited the snack, biscuit and kapenta categories. Turnover amounted to \$22.7m and the earnings were acceptable.

Mahatma and Red Seal rice brands performed well above expectations. The Red Seal brand continues to enjoy a leading market share position in the salt category. The smaller grains such as popcorn and sugar beans performed steadily as did jam and peanut butter. Fattis and Monis pasta sales volumes grew by 3% on the prior year.

The Group continues to seek opportunities for expanding the business' product portfolio into adjacent consumer packaged goods categories. Our strategy remains that of striving to achieve the number 1 or 2 market share position in all the categories in which we choose to compete.

The introduction of import duties on pre-packed rice and salt should assist the business from the unfavourable onslaught of operations with a greater scale across the region. However, a similar intervention on pasta is likely to slow down growth prospects as there is no local manufacturer of pasta and prices are likely to rise beyond consumer affordability.

### Depot Network

Years of shortages moved the buying trends into the cities but of late this pattern appears to be reversing. Customers, traders and farmers now trust that goods will be consistently available throughout the country as reflected by increased sales of 36% through our depot network compared to the prior period. The small scale farming community and small scale traders remain an important and growing trade channel for National Foods.

### Properties

In 2009 the properties were placed in a separate company to be positioned for an upscale in property transactions that was expected to coincide with the introduction of the US dollar. Simultaneously, a third party was appointed to manage the properties with a far reaching mandate that included formalising rental agreements, collating permanent data on each property, implementing a repairs and maintenance programme and managing the local authorities. This exercise has now been completed.

By December 2011 a further four properties were disposed of, leaving net leasable area of 169,000m<sup>2</sup> of which 50% was let to National Foods, 23% to third parties and 27% remains unoccupied.

The Board has mandated management to expedite disposals of non-core or non-performing properties and allocate the proceeds to strengthening core business capabilities, fund working capital and retire debt where it is economically wise to do so. Demand for larger warehouses seems firm at this time thus supporting the disposal strategy.

### Future Prospects

The Group has experienced good progress in stabilising the operating platform during the period under review. We are also satisfied with the improvement in returns on shareholders' equity that the Group delivered for the first half of the current financial year. Management will continue to focus on initiatives to further optimise the current operating platform as well as capitalise on the identified growth opportunities. Opportunities for further efficiencies along the Group's value chain remain a key focus area. Linked to that thrust is the need to re-invest behind the key enablers of our capability platform such as the information technology infrastructure.

Growth opportunities have been identified across the existing categories as well as into adjacent categories. The Group's future growth will be supported by increased investment levels behind our facilities, our people's competence levels as well as our brands.

Fiscal discipline remains a core element of our future success, more especially during this period of liquidity constraints.

### Dividend

The Board has declared an interim dividend of 1.2 US cents per share payable on or about 6 April 2012 to shareholders registered in the books of the company by noon on 23 March 2012. The transfer books and register of members will be closed from 24 March 2012 to 31 March 2012, both dates inclusive.

### Acknowledgement and Appreciation

I wish to express my thanks to my Board colleagues whose enthusiasm in supporting management from 'survival to revival' has begun to deliver rewards. Furthermore the investment by Tiger Brands of some \$11.7m confirms their commitment to both National Foods and Zimbabwe and brings with it considerable support for the future success of our Group.

Finally, I wish to express my sincere gratitude to fellow board members, management and staff for their efforts in enabling the Group to deliver a pleasing performance for the period under review. We will continue to focus our efforts in building a successful investment case for National Foods on behalf of our shareholders.

**T. Moyo**  
Chairman  
28th February 2012

## Abridged Group Statement of Comprehensive Income

	6 months ended 31 Dec 2011 unaudited USD	6 months ended 31 Dec 2010 unaudited USD
<b>Continuing Operations</b>		
Revenue	116 143 528	93 949 357
Operating profit before depreciation and amortisation depreciation and amortisation	5 792 901 (840 196)	4 585 346 (875 078)
Profit before interest and tax net interest equity accounted earnings	4 952 705 (130 874) -	3 710 268 (366 113) 359 287
Profit before tax from continuing operations tax	4 821 831 (1 217 718)	3 703 442 (836 722)
Profit for the period from continuing operations	3 604 113	2 866 720
<b>Discontinued Operations</b>		
profit after tax for the year from discontinued operations	-	131 268
Profit for the period from continuing and discontinued operations	3 604 113	2 997 988
<b>Other comprehensive income</b>		
exchange differences arising on translating foreign operations	(3 178)	(1 095)
Total comprehensive income from continuing and discontinued operations the period	3 600 935	2 996 893
<b>Profit for the period attributable to:</b>		
equity holders of the parent	3 587 330	2 962 392
non-controlling interests	16 783	35 596
	3 604 113	2 997 988
<b>Total comprehensive income for the period attributable to:</b>		
equity holders of the parent	3 584 152	2 961 297
non-controlling interests	16 783	35 596
	3 600 935	2 996 893
<b>Earnings Per Share (Cents)</b>		
From continuing and discontinued operations		
-Basic earnings per Share	5.24	4.33
From continuing operations		
-Basic earnings per Share	5.24	4.14

## Abridged Group Statement of Financial Position

	At 31 Dec 2011 unaudited USD	At 30 June 2011 audited USD
<b>Assets</b>		
<b>Non-current assets</b>		
property, plant and equipment	34 265 062	33 266 170
investments in associate companies	812 585	812 585
other non-current financial assets	463 890	64 627
	35 541 537	34 143 382
<b>Current assets</b>		
cash and cash equivalents	8 860 464	5 920 654
other current assets	52 481 295	41 173 937
	61 341 759	47 094 591
assets classified as held for sale	-	748 045
Total assets	96 883 296	81 986 018
<b>Equity and Liabilities</b>		
<b>Capital and reserves</b>		
ordinary share capital	683 988	683 988
non-distributable reserves	24 679 240	24 682 418
distributable reserves	21 162 919	18 156 989
	46 526 147	43 523 395
non-controlling interest	94 600	77 817
Total shareholders' equity	46 620 747	43 601 212
<b>Non-current liabilities</b>		
deferred tax liability	8 163 413	8 190 198
	8 163 413	8 190 198
<b>Current liabilities</b>		
bank overdrafts and acceptances	9 683 779	2 032 856
interest bearing borrowings	2 101 056	5 000 000
trade and other payables	29 537 809	23 000 219
current tax liability	776 492	161 533
	42 099 136	30 194 608
Total liabilities	50 262 549	38 384 806
Total equity and liabilities	96 883 296	81 986 018

## Abridged Group Statement of Cash Flows

	6 months ended 31 Dec 2011 unaudited USD	6 months ended 31 Dec 2010 unaudited USD
Cash generated / (used in) operating activities net interest paid tax paid	254 472 (130 874) (629 523)	(393 945) (366 113) (503 007)
Total cash used in operations	(505 925)	(1 263 065)
Investing activities	(721 937)	296 701
Net cash outflow before financing activities	(1 227 862)	(966 364)
Financing activities	(3 483 251)	(1 830 065)
Net decrease in cash	(4 711 113)	(2 796 429)
Cash and cash equivalents at 30 June 2011	3 887 798	7 084 413
Cash and cash equivalents at 31 December 2011	(823 315)	4 287 984

## Abridged Group Statement of Changes in Equity

	6 months ended 31 Dec 2011 unaudited USD
Changes in non-distributable reserves	(3 178)
arising on the translation of foreign operations	(3 178)
Changes in distributable reserves	3 005 930
profit for the period attributable to equity holders of the parent dividends paid	3 587 330 (581 400)
Changes in non-controlling interest	16 783
profit for the period attributable to non controlling interests	16 783
Total current year movements	3 019 535
Shareholders' equity at 30 June 2011	43 601 212
Shareholders' equity at 31 December 2011	46 620 747

## Supplementary Information

	6 months ended 31 Dec 2011 unaudited USD	6 months ended 31 Dec 2010 unaudited USD
1 Depreciation	840 196	875 078
2 Capital expenditure for the period	1 933 906	888 545
3 Commitments for capital expenditure Contracts and orders placed Authorised by directors but not contracted	1 080 815 1 526 351 2 607 166	249 455 2 864 866 3 114 321

The capital expenditure is to be financed out of the Group's own resources and existing borrowing facilities.