

**Chairman's Statement**
**Directors' Responsibility**

The Holding Company's Directors are responsible for the preparation and fair presentation of the Group's consolidated financial statements, of which this press release represents an extract. These financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act (Chapter 24:03). The principal accounting policies of the Group are consistent with those applied in the previous year.

**Audit Statement**

The Group's external auditors, Ernst & Young, have issued an unmodified review conclusion on the financial statements of the Group for the year ended 30 June 2013. The audit of the Group financial statements is complete pending the finalisation of the annual report; no changes are expected on the reviewed numbers. The unmodified review report is available for inspection at the Company's registered office.

**Introduction**

The Company posted a good set of financial results for the year. This performance was assisted by increased capacity utilisation as its strategy to "fix, optimise and grow" gained traction in all core categories.

The underlying macro-economic trends in this industry going forward are a cause for concern. Cereal production is at its lowest levels in the last 50 years which will force millers and stockfeed processors to import increasing quantities of raw material, and has the effect of exacerbating an already fragile current account deficit and thereby applying further pressure on a strained liquidity situation. The devaluation in the South African rand during the year has enabled the importation of finished goods as these products can now more easily compete with locally manufactured product. In addition to the ongoing improvements in manufacturing processes, the Zimbabwean food manufacturing industry requires a dramatic increase in domestic cereal production in order to compete fully with the finished imported products.

The wage increases of up to 9% during the year have been far in excess of inflation figures and are beginning to weigh heavily on the production costs of companies in this industry. There will be a need to expedite mechanisms in the industry to contain overhead costs to enable us to compete with imported finished goods.

Most consumers generally traded down the brand triangles in an effort to stretch ever reducing disposable incomes. Consequently most leading food brands reduced margins to maintain market share and shelf space. This affected overall margins especially in the second half of the year.

The industry met regularly with policy makers resulting in positive changes taking place in various areas except that we still have to come up with a strategy for improving the local production of cereals which are critical inputs in the industry.

**Overview of financial performance**

For the financial year to 30 June 2013, the Group delivered revenue growth of 26% to \$296 million on a volume increase of 21%. Total volumes sold of 489,000 tons represent capacity utilisation of 46%.

The Group's margins are heavily influenced by international commodity price movements, the length and cost of our raw material pipeline, as well as regional competitor activity. Accordingly, National Foods realised margins above expectation in the first half and below expectation in the second half as the world markets moved down and against positions taken. Overall naked margin achieved was 23% which is 0.6% down on previous year.

Non-recurring profits of \$3.4m were realised through property disposals (\$0.8m) and once off raw material gains (\$2.6m). Overall profit before tax achieved of \$17.2m was therefore 61% higher than the previous year. Profit after tax increased by 76% to \$13.9m. Headline earnings of \$13.2m achieved was 70% higher than the previous year.

Net working capital increased by \$33.1m to \$46.7m to fund the increase in volumes produced along with more appropriate on-balance sheet funding structures. This change in funding structures had no material impact on earnings per share. Accordingly our net borrowings increased to \$16.5m resulting in a gearing ratio of 27% which is within plan.

In an effort to modernise the operating platform, the Group invested \$6.1m into capital projects and has plans to invest further in key operational areas in the coming year.

**Operations Review**

We operated eight of our eleven factories which provided us sufficient capacity to fulfill actual demand. Backup generator power was installed at the Bulawayo and Harare flour mills and also at the rice plant in Mutare. Despatch services, weighbridges and the Information Technology system are now supported with standby power.

At Stockfeeds, we commenced an upgrade of the extruders and pelletisers to improve quality and fulfill increased demand for poultry feed. The laboratories at all sites have been upgraded to enable us to quality-test every batch produced. Considerable investment was made into grain intake, bulk storage, weighbridges and security systems to capacitate the business for growth along with improved efficiencies.

Seven new distribution depots were opened in Ruwa, Bircheneough Bridge, Aspindale, Gurure, Lupane, Checheche and Hauna bringing the network of distribution depots to 34, further enhancing the service to our customer channels. The depot network also supplies inputs to farmers and purchases raw materials for cash.

The support services of Human Resources, Information Technology (IT), Risk, Procurement, Credit Control and Legal were all significantly enhanced to meet the needs of the business at its current size and provide capability for growth.

Our four main brands namely Red Seal, Gloria, Mahatma and NF Stockfeeds retained category leader status as well as being awarded 1st, 2nd and 3rd in the Basic Foods category at the annual Zimbabwean Superbrands Awards. Valuable consumer insights were gained during the year which enabled us to produce a number of brand variants, new products and a more compelling consumer proposition for launch during 2013.

In order to ensure sustainability, the Group entered into several arrangements with various service providers for the provision of rail transportation, port handling facilities, bulk storage, grain origination, delivery services and technical support.

**Milling, Manufacturing And Distribution**

**Flour Milling**  
This division sold 44% more flour in the year under review compared to the prior year due mainly to the introduction of tariffs on imported flour. Users were largely protected from a price increase as we elected to trade gross margin reduction for increased volumes and a resultant higher capacity utilisation at the mill. This in turn necessitated increased expenditure to repair the mills, but also capital expenditure to ensure quality continuity.

We succeeded in meeting the increased demand at the requisite quality and maintained a nationwide single price.

Given that 90% of our wheat is imported from distant locations such as Russia, Australia, Argentina and Ukraine, our wheat pipeline is five months ahead of demand. World price movements allowed us to generate strong gross margins in the first half of the year, however, the reciprocal occurred in the latter six months.

The year long evaluation of a greenfield new mill site versus replacing the mills on our existing sites has been completed. We have elected to significantly upgrade our existing mills in Bulawayo and Harare, starting immediately.

The important contribution to Group profit by this division coupled with strong market share through off-take arrangements with our major customers provide the justification needed for a major investment into the mills.

**Maize Milling**  
A noteworthy development during the year was the emergence of the Grain Marketing Board (GMB) as a material competitor at the lower end of this category. Consequently there was no change in volumes sold, year on year, although net sales revenue grew 14% driven by an increased average realisation per ton sold to \$482.

Profitability was down 13% on the prior year due to subdued volumes and increased competition - nevertheless our Pearlenta brand continued to gain market share in the refined maize meal category which is our primary strategic intent. Automated packing machines and investment into the

aspiration systems helped maintain an excellent quality product. The local maize harvest appears to be considerably smaller than projected, however the Group is well positioned with a large stock-holding pipeline to ensure maize meal availability until the end of 2013.

This business remains a significant contributor to Group profits.

**Stockfeeds**

The Stockfeeds business posted good volume growth of 38% on prior year to 167,000mt driven mainly by improved sales of beef and poultry feeds. Interventions in raw material quality and feed formulations, along with investment in the laboratories, saw an overall uplift in quality of product which was well received by our customers and supported by extensive trials which scored well against regional feed conversion ratios.

Whilst all-in manufacturing costs per ton were 3% up over the prior year, numerous opportunities exist to re-engineer our processes and systems for better efficiency and a lower feed cost to the protein industry.

High soya and maize prices put substantial pressure on protein producers' ability to compete with imported chicken from countries that grow their own raw materials.

Our stockfeeds plants in both Bulawayo and Harare are being upgraded to accommodate higher production levels producing the consistently outstanding feed that our market demands. Additionally we see potential in toll manufacturing feed for the region given our geographical location.

The inextricable link between local agricultural production, local millers, local stockfeed manufacturers and local protein producers needs to be protected at all costs. Long term, sustainable policy changes are urgently needed to support these critical components of the economy, and indeed the country.

The business' profit grew by 55% over the prior year driven almost exclusively by improved capacity utilisation from volume growth.

**FMCG**

Volumes of rice, salt, small grains, pasta, spreads and baked beans sold were 13% higher than the prior year but at the expense of margin which dropped to 21% from 22.5% in an increasingly competitive market. The business contributed marginally to Group profitability with little year on year change which is disappointing given the strength and diversity of the brands in this portfolio. Of significance though, is the \$3.2m contribution to Group overhead.

The market remains largely price driven with little, or no brand premium available. Consequently, we are compelled to re-engineer the processes and systems to become the lowest cost and most efficient producer in each and every category in which we compete. Numerous initiatives have commenced with positive results in the pasta, salt and rice categories. In particular our long-term rice strategy, underpinned by the new downpacking plant in Mutare, will offer products and variants across the category at all price points. By the financial year-end we were experiencing positive market share gains in rice.

Interventions into procurement, logistics and product handling should impact positively on this business in the near term.

**Properties**

During the year under review eight properties were sold as we continue to dispose of non-core or ageing assets in order to apply the balance sheet value more appropriately. At 30 June 2013 the net lettable area of properties we own had reduced from June 2012 by 11% to 150,000m<sup>2</sup>, of which 57% was occupied by National Foods, whilst 10% was leased to third parties and 33% was vacant. 37,000m<sup>2</sup> of property remains on the market. There was increased focus during the year on repairing and maintaining the core National Foods properties.

**Support Services**

In order to both de-risk and capacitate the Group for growth, significant upskilling took place in all the support services.

The Information Technology (IT) outsource was terminated and brought in-house under a newly recruited Group IT Executive with a mandate to deliver a far-reaching and innovative single IT strategy across the enterprise. Similarly an in-house Group Legal executive was recruited to contain rising fraud and mitigate risk in general. The Credit Control and Procurement Committees have full time executive representation to execute these two essential functions more effectively and efficiently.

**Corporate Social Responsibility**

There are twenty five identified charities and vulnerable institutions across the country to whom we provide regular and on-going support, primarily through the provision of food.

Our four permanent clinics continue to provide free medical services to our full time and contract employees as well as discreet HIV testing and free ARV treatment.

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**Future Prospects**

The group posted a good financial performance for the year, albeit partly assisted by some non-recurring items. The five year underlying profit before tax compounded annual growth rate stands at 29% bearing testimony to the good strategies adopted over the years. In particular our brands have grown market share which in turn drives volumes and capacity utilisation at the factories enabling better efficiencies off a predominantly fixed cost operating platform.

The current environment is showing signs of a slow down on the back of a liquidity crisis and insufficient local agricultural production. Moreover, further devaluation of the South African rand could negatively impact on Zimbabwe's food manufacturing sector.

Management will continue to develop all aspects of the business to bolster our ability to compete and offer a compelling brand proposition. The increase in volumes sold in the year necessitates further upgrades into the plant and equipment and investment into our people. To this end, we will spend about \$7m on capital expenditure in the forthcoming financial year.

The Group is reviewing the business cases for entry into two new categories that can be easily "clipped on" to the existing manufacturing and distribution footprint. We are confident at least one new product will be in the market in the forthcoming financial year.

Consumers justifiably continue to demand more. The Group will work to gain meaningful insights into consumer needs to drive the innovation in product and brand to meet the needs of the consumer. Particular focus is on pack size and price point to mitigate the absence of coins as change.

National Foods is committed to training and exchange programmes for our people that can benefit them as individuals and employees. We remain grateful to our partners for assisting with technical training and support in key areas of the company.

The continuation of growth at the recent levels will be largely dependent on a revival of the local agricultural sector and the macro-economic policies to be adopted.

**Dividend**

The Board has declared a final dividend of 3.0c per share (bringing the total dividend for the year to 6.0c per share) payable on or about 4th October 2013 to shareholders registered in the books of the Company by noon on 20th September 2013. The transfer books and register of members will be closed on 21st and 22nd September 2013.

**Acknowledgement and Appreciation**

I wish to thank my fellow Board members for the roles they have played in the sub-committees and on the Board itself. I am very much pleased with the improved profitability of the Group, as well as strategies adopted to build sustainability.

I thank the management and staff for their contribution to this set of results in the full realisation that they were achieved in a period of diminishing liquidity.

The Group has sufficient capacity and capability for growth in both existing and new categories which I am confident will be achieved in the next year to the satisfaction of most stakeholders.

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# Reviewed Financial Results of National Foods Holdings Limited

Full year to 30 June 2013

## Abridged Group Statement of Comprehensive Income

	Year Ended 30 June 2013 reviewed USD'000	Year Ended 30 June 2012 audited USD'000
<b>Revenue</b>	295,926	233,998
<b>Operating profit before depreciation and amortisation</b> depreciation and amortisation	20,368 (1,929)	12,940 (1,887)
<b>Profit before interest and tax</b> net interest	18,439 (1,190)	11,053 (345)
<b>Profit before tax</b> tax	17,249 (3,310)	10,708 (2,804)
<b>Profit for the period</b>	13,939	7,904
<b>Other comprehensive income</b> - to be recycled to profit and loss at a future point in time exchange differences arising on translating foreign operations	(2)	(4)
<b>Total comprehensive income for the period</b>	13,937	7,900
<b>Profit for the period attributable to:</b> equity holders of the parent non-controlling interests	13,939 - 13,939	7,899 5 7,904
<b>Total comprehensive income for the period attributable to:</b> equity holders of the parent non-controlling interests	13,937	7,895
<b>EARNINGS PER SHARE (CENTS)</b> Basic earnings per share (cents) Headline earnings per share (cents)	20.38 19.27	11.55 11.32

## Abridged Group Statement of Financial Position

	At 30 June 2013 reviewed USD'000	At 30 June 2012 audited USD'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
property, plant and equipment	37,925	35,851
other non-current financial assets	120	277
	38,045	36,128
<b>Current assets</b>		
cash and short term deposits	4,106	10,619
other current assets	71,993	41,770
	76,099	52,389
	114,144	88,517
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		
ordinary share capital	684	684
non-distributable reserves	24,676	24,678
distributable reserves	35,468	24,649
	60,828	50,011
<b>Non-current liabilities</b>		
deferred tax liability	7,450	8,074
	7,450	8,074
<b>Current liabilities</b>		
bank overdrafts and acceptances	-	2,265
interest-bearing borrowings	20,566	75
trade and other payables	24,682	27,121
current tax liability	618	971