


Unaudited Financial Results of National Foods Holdings Limited
for the six months ended 31 December 2014

CHAIRMAN'S STATEMENT
Introduction

The Group recorded a subdued performance for the half year with profit before tax of \$8.78 million which was 4.7% below the comparative prior period results. The outcome was influenced primarily by the poor performance of the Maize business, where volumes declined 28% versus prior period as a result of a significantly improved 2013-14 local maize harvest, particularly in the Matabeleland and Masvingo Provinces. Excluding the Maize division, revenue for the half year grew by 10.9%, despite a moderate performance by the Stockfeeds division.

During the period, consumer disposable income declined further in the face of reducing formal employment. In addition, deflationary pressures continued, with the consumer price index recording food and non-alcoholic beverage prices deflating at 2.6% for the year to December 2014. This, together with a devaluing Rand, significantly heightened competitive pressure against imported product. The authorities were cognisant of the situation and moved to protect local industry through enhanced monitoring of imports. This supported volumes in certain parts of the business, notably the Flour division.

Overview of Financial Performance

Total volumes increased marginally during the period, while changes in product mix across most categories reduced margins and consequently profitability. All in costs declined by 2% versus last year as the various efficiency improvement and cost containment measures began to bear fruit. A strategic decision was taken to substantially increase marketing investment to support our brands with the objective of further entrenching the category leading position that most of our brands hold.

As is the norm in the first half of the financial year, the Group consumed \$5.9 million of free cash and this was primarily directed to seasonal holdings of maize, wheat and stockfeeds raw materials. National Foods continues to support local farming and the recently completed 2014 wheat scheme provided input support to the tune of \$3 million, funding 3,300 hectares of wheat production from which 21,000 mt was purchased. A similar scheme is underway in the current season, where 5,000 hectares of maize and soya beans are being grown.

Flour Milling

The division performed well during the period, with volumes increasing 15.5% compared to the prior period. The volume growth was driven primarily by the bakers flour channel, while in the pre-pack flour segment Gloria and Red Seal continued to perform strongly on shelf. The three year program to refurbish both the Harare and Bulawayo Flour mills to international standards is underway and progressing according to plan, with capital expenditure of \$4.1 million planned for the current financial year.

Maize Milling

The Maize business had a disappointing half year on the back of reduced volumes following the good local harvest which meant increased household retentions of raw maize. Whilst volumes achieved were disappointing, they were largely in line with similar size harvests in previous years. The authorities legislated a maize purchase price of \$390/mt during the period, and whilst National Foods purchased 23,000 mt of local maize at this price, the new regulation created some distortions in the maize market. Through the Grain Millers Association, National Foods is working with the authorities to create a more sustainable solution to the issue of maize pricing for the coming season.

Stockfeeds

The Stockfeeds business had a subdued half year, with volumes declining 5.5% compared to the same period last year. This was driven by a combination of lacklustre feed demand, disappointing sales to small scale poultry farmers and the fact that some NGO based livestock support programs were discontinued following an excellent 2013-14 rainy season.

From an industry perspective livestock producers across all sectors have faced constrained viability on the back of muted consumer demand, cheap protein imports and high grain prices. The small scale poultry sector was the exception and continued to register encouraging growth. Our efforts to better service this sector will be further intensified in the coming period.

FMCG

This division continues to make an increasingly important contribution to the Group, with volumes increasing 18.4% compared to prior year. This was driven by cooking oil where Red Seal and Better Buy performed strongly as well as new launches of Red Seal and Better Buy Baked Beans, Better Buy Macaroni and Red Seal Relish Mix.

Intense focus has been placed on developing an appropriate portfolio of brands in each category that match the ever changing consumer needs. Many of the categories in this business have high growth potential and as such it will be a key growth vector in future.

Corporate Social Responsibility

The Group provides regular support to a total of 35 institutions spread across 10 provinces in the country. Of these, 13 were added to the programme during the period under review. In addition, the Group supports 10 livestock and wildlife based institutions with supplies of stockfeed.

Future Prospects

With the exception of the Flour operations, the manufacturing facilities are now largely operating to expectation. Whilst efforts to further optimise manufacturing performance through capital projects and upskilling of our people will be an ongoing journey, the major focus of the Group will now be to achieve a deep understanding of consumer needs and to establish how best to meet those needs.

Work to optimise the cost base of the business continues, with a major project to improve the effectiveness and cost of product distribution underway, in addition to the various capital projects being implemented.

The Group has capacity to fund growth initiatives from internal resources and is in the process of identifying prospective opportunities with a view to increasing contribution from the existing fixed services platform. Organic and acquisitive growth is now a key theme in order to sustain earnings growth and to moderate the impact of the seasonally dependent maize category.

Dividend

The Board has declared an interim dividend of 3.11c per share payable on or about 2nd April 2015, to shareholders registered in the books of the company by noon on 20th March 2015. The transfer books and register of members will be closed from the 21st March to 22nd March 2015, both days inclusive.

Directorate and Appreciation

During the period under review National Foods has experienced a number of changes in its Directorate.

Following the management re-structure at Innscor Africa Limited, Mr Julian Schonken was appointed to the Board with effect from 1st January 2015, with Mr John Kourides acting as his alternate. I wish to thank John sincerely for his dedication to National Foods over the past two years. We welcome Julian back to the Board and look forward to his valuable contributions.

Mr Jeremy Brooke resigned as Chief Executive Officer of National Foods with effect from 31st October 2014. Jeremy provided astute leadership to the Group during his seven years of office, leading it through the difficult pre-dollarization era, onto revival and then growth. He leaves the business well positioned to take advantage of the opportunities that lie ahead.

Mr Michael Lashbrook was appointed Chief Executive Officer with effect from 1st January 2015. Michael has spent the past six years in the position of Group Operations Director, and brings a wealth of experience into his new role, having been a key member of the management team responsible for the resuscitation and growth of the business; the Board joins me in wishing Michael continued success with this new responsibility.

Finally, I wish to take this opportunity to thank staff and management for their continued commitment to the business and my fellow Board members for their on-going support and counsel.

Todd Moyo

Chairman
18 February 2015

SALENT FEATURES

 6 months ended
31 Dec 2014
unaudited

	USD'000	
Revenue	167 038	1%
Operating profit	10 212	7%
Profit before tax	8 778	5%
Basic earnings per share (cents)	9.32	7%
Headline earnings per share (cents)	9.29	7%
Cash generated from operations	(1 353)	115%
Interim dividend declared per share (cents)	3.11	4%

ABRIDGED GROUP STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	6 months ended 31 Dec 2014 unaudited USD'000	6 months ended 31 Dec 2013 unaudited USD'000
Revenue	167 038	165 773
Operating profit before depreciation and amortisation depreciation and amortisation	10 212 (1 251)	10 972 (1 078)
Profit before interest and tax Interest Income	8 961 497	9 894 297
Interest Paid	(680)	(980)
Profit before tax tax	8 778 (2 401)	9 211 (2 341)
Profit for the period	6 377	6 870
Other comprehensive income - to be recycled to profit or loss at a future point in time exchange differences arising on the translation of foreign operations	(1)	-
Total comprehensive income for the period	6 376	6 870
Profit for the period attributable to: equity holders of the parent	6 377	6 870
Total comprehensive income for the period attributable to: equity holders of the parent	6 376	6 870
EARNINGS PER SHARE (CENTS)		
-Basic earnings per share	9.32	10.04
-Headline earnings per share	9.29	10.01

ABRIDGED GROUP STATEMENT OF FINANCIAL POSITION

	At 31 Dec 2014 unaudited USD'000	At 30 June 2014 audited USD'000
ASSETS		
Non-current assets		
property, plant and equipment	38 634	37 186
other non-current financial assets	120	122
	38 754	37 308
Current assets		
cash and cash equivalents	7 995	12 672
inventory	48 963	42 381
trade and other receivables	29 991	26 377
assets held for sale	1 351	1 351
	88 300	82 781
Total assets	127 054	120 089
EQUITY AND LIABILITIES		
Capital and reserves		
ordinary share capital	684	684
non-distributable reserves	(9)	(8)
distributable reserves	75 664	72 831
Total shareholders' equity	76 339	73 507
Non-current liabilities		
deferred tax liability	7 347	7 606
	7 347	7 606
Current liabilities		
interest-bearing borrowings	9 644	1 216
bank overdrafts	4 134	7 221
trade payables	22 591	23 284
other payables	6 297	6 950
current tax liability	634	237
liabilities relating to assets held for sale	68	68
	43 368	38 976
Total liabilities	50 715	46 582
Total equity and liabilities	127 054	120 089

ABRIDGED GROUP STATEMENT OF CASH FLOWS

	6 months ended 31 Dec 2014 unaudited USD'000	6 months ended 31 Dec 2013 unaudited USD'000
Cash (utilised in)/ generated from operating activities	(1 353)	9 076
net interest paid	(183)	(683)
tax paid	(2 263)	(1 482)
	(3 799)	6 911
Investing activities		
Purchase of property, plant and equipment to expand operations	(649)	(970)
Purchase of property, plant and equipment to maintain operations	(2 059)	(801)
Other cashflows from investing activities	32	(2 146)
Net cash outflow from investing activities	(2 676)	(3 917)
Net cash (outflow)/inflow before financing activities	(6 475)	2 994
Financing activities	4 885	(5 356)
Net decrease in cash and cash equivalents	(1 590)	(2 362)
Cash and cash equivalents at the beginning of the period	5 451	4 106
Cash and cash equivalents at the end of the period	3 861	1 744
Cash and cash equivalents comprise		
cash and short term deposits	7 995	1 744
bank overdrafts	(4 134)	-
	3 861	1 744

ABRIDGED GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital USD'000	Non-Distributable Reserves USD'000	Distributable Reserves USD'000	Total USD'000
Balance at 30 June 2014	684	(8)	72 831	73 507
profit attributable to equity holders of the parent	-	-	6 377	6 377
dividends paid	-	-	(3 544)	(3 544)
other comprehensive income	-	(1)	-	(1)
Balance at 31 December 2014	684	(9)	75 664	76 339

SUPPLEMENTARY INFORMATION
1 Corporate Information

The Company and its subsidiaries are incorporated in Zimbabwe except for Botswana Milling and Produce Company (Proprietary) Limited and Red Seal Manufacturers (Proprietary) Limited which are incorporated in Botswana.

2 Operating Segments

	Milling, Manufacturing and Distribution USD'000	Properties USD'000	Intersegment adjustments USD'000	Total USD'000
Revenue	166 870	1 136	(968)	167 038
31 December 2014	165 5			