

ABRIDGED AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors of Dairibord Holdings Limited are pleased to announce the Group's audited financial results for the year ended 31 December 2017.



Dairibord Holdings
More Than Just Milk

Nutritious Foods and Beverages for the Sustenance of Good Health

CHAIRMAN'S STATEMENT

INTRODUCTION

The business posted a significantly improved set of results for the year ended 31 December 2017. A combination of strong demand, increased capacity and the realignment of the corporate and organisational structures all positively impacted the overall performance for the period.

OPERATING ENVIRONMENT

The operating environment was characterized by pronounced foreign currency shortages which affected product supply, and constrained the business' ability to fully exploit volume growth opportunities. The all items Year-on-Year inflation closed the year at 3.46%, with the foods and non-alcoholic beverages inflation at 6.60%. Despite the challenges, demand was firm, benefiting from Government efforts to promote local manufacturing through various measures including SI122 of 2017.

Going forward, the operating environment is expected to improve on the back of new policy initiatives by the government. In particular, Government trust, to instil confidence through security of tenure on farms, is expected to spur raw milk growth and agriculture production in general.

GROUP PERFORMANCE

Raw Milk Intake

Increased competition for raw milk and constrained levels of productivity, at farm level, had a negative impact on Group raw milk intake. Raw milk received from farmers for the full year declined 16% on prior year. The Group is pursuing various initiatives to increase milk intake which is currently below market demand. Specific strategies include upscaling productivity for the existing herd, attracting more farmers, and growing the herd through the heifer procurement scheme. The Heifer Program which started in 2012, is now contributing 15% of raw milk intake in Zimbabwe.

Volumes and revenue

Volumes sold, at 89,423 million litres, were 8% above 2016 levels. Firm market demand across all product categories, and increased capacity to support beverages and liquid milks benefited volumes. Volumes achieved were however not optimal due to forex driven product shortages, adverse weather conditions in the first quarter of the year, and sales disruptions during system migration on consolidation of the operations. Carbonised UHT milk and Pfuko volumes grew significantly, benefitting from increased capacity invested in 2016. Other product lines which recorded significant growth, on account of firm demand, were Steri milk, yoghurts, and condiments.

Revenue increased 10%, to \$103,147 million, on account of the 8% volume growth and a 2% nominal price adjustment effected to mitigate cost increases. The average selling price per litre, for 2017, was 3 cents higher than the \$1.15 in 2016. Going forward, the business will continue to drive revenue through volume growth initiatives.

Profitability

Profitability significantly improved in 2017, spurred by execution of the turnaround strategy embarked on at the beginning of the year. The program was aimed at integrating the business into a lean, efficient and profitable operation. Consequently, selling, marketing, administration and other overheads decreased by \$4.877 million (16%) from 2016. Excluding the \$2.8 million once off costs charged in 2016, overheads decreased by \$2,077 million.

The Group recorded an operating profit of \$4,058 million, a turnaround from an operating loss of \$3,898 million in 2016. EBITDA also improved significantly from \$1,257 million in 2016, to \$9,522 million in 2017. After accounting for once off retrenchment costs of \$0,847 million and a net interest bill of \$0,740 million, the Group recorded a profit before tax of \$2,471 million, compared to a 2016 loss before tax of \$4,881 million. The new low cost operating model adopted will continue to benefit the business in the future.

Dairibord Malawi Limited recorded an operating loss of \$0,550 million, an increase on the 2016 operating loss of \$0,146 million. The Board reviewed the performance of the business and believes the Malawi market is attractive to hold and grow the business.

Cash generation

Net cash generated from operations increased to \$6,239 million, up from \$4,496 million generated in 2016, benefiting from the improved operating performance. The cash was utilised to finance capital expenditure of \$1,972 million, and repayment of borrowings of \$2,370 million. Interest bearing borrowings (including overdraft) amounted to \$7,874 million at year end, 25% below December 2016.

Cash and cash equivalents amounted to \$5,819 million at period end, from \$3,467 million at the end of December 2016, mainly due to failure to remit foreign payments. The business is focusing on utilising the cash balances to enhance the stock replacement program.

OUTLOOK

Noting the progress made by the business to date, and the renewed optimism for economic turnaround, focus will be on the following:

- Improving profitability through volume growth and cost containment
- Optimally utilising cash resources to procure inputs required in order to ensure adequate product supply
- Maximising capacity utilisation to meet demand
- Contributing towards foreign currency generation through exports into the region
- Improving efficiencies across the entire value chain, and improving the internal control environment

DIVIDEND DECLARATION

Considering the improved performance of the business, cash generation, and the reduced capital expenditure plan going forward, the Board resolved to declare a dividend of 0.20 US cents per share for the year. The dividend is payable on or around 28 May 2018 to shareholders registered in the books of the company at the close of business on 18 May 2018, the last date on which the shares will trade cum-div.

DIRECTORATE

In line with the company's articles of association, I will be retiring and stepping down as Chairman of the Board at the AGM to be held in May 2018, after having served for six years. In this regard, I wish to express my sincere appreciation to Board and all stakeholders for the support given over the years.

The process of selecting my replacement is currently in progress and the outcome will be communicated in due course.

APPRECIATION

On behalf of the Board, allow me now to express my gratitude to our various stakeholders, management and staff for the unwavering support to the operations and success of the company.


Dr. L.L. Tumba
Chairman
March 2018

FINANCIAL SUMMARY

	31 December 2017 US\$	31 December 2016 US\$	% Change
Financial			
Revenue	103,147,437	93,422,853	10%
Earnings before interest depreciation, interest and amortisation	9,521,690	1,257,385	657%
Operating profit/(loss)	4,058,212	(3,897,834)	204%
Profit/(loss) before tax for the period	2,470,924	(4,880,506)	151%
Net cashflows from operating activities	6,239,306	4,495,605	39%
Total equity	45,419,619	44,064,652	3%
Volumes			
Raw milk intake	26,363,667	31,292,512	(16%)
Sales	89,422,685	82,858,519	8%

GROUP STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

Notes	31 December 2017 US\$	31 December 2016 US\$
Assets		
Non-current assets		
Property, plant and equipment and investment property	42,200,715	45,248,308
Intangible assets	455,643	553,794
Other non-current financial assets	26,174	206,676
	42,682,532	46,008,778
Current assets		
Inventories	12,119,852	13,303,887
Prepayments	1,553,843	854,717
Trade and other receivables	10,043,187	10,332,128
Cash and cash equivalents	5,819,110	3,467,286
	29,535,992	27,958,018
Assets classified as held for sale	-	569,447
	29,535,992	28,527,465
Total assets	72,218,524	74,536,243
Equity and liabilities		
Equity		
Share capital	35,800	35,800
Share premium	1,379,664	1,379,664
Non-distributable reserves	24,343,076	24,473,623
Retained earnings	19,708,987	17,968,630
Equity attributable to owners of the parent	45,467,527	43,857,717
Non controlling interest	(47,908)	206,935
Total equity	45,419,619	44,064,652
Non-current liabilities		
Interest - bearing borrowings	3,831,399	6,651,355
Grant income deferred	218,908	-
Deferred tax liability	5,422,557	4,457,585
	9,472,864	11,108,940
Current liabilities		
Trade and other payables	13,277,541	15,522,524
Interest - bearing borrowings	3,953,308	3,065,983
Income tax payable	5,859	41,829
Bank overdraft	89,333	732,315
	17,326,041	19,362,651
Total liabilities	26,798,905	30,471,591
Total equity and liabilities	72,218,524	74,536,243

GROUP STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended 31 December 2017

	31 December 2017 US\$	31 December 2016 US\$
Revenue	103,147,437	93,422,853
Earnings before depreciation and amortisation	9,521,690	1,257,385
Depreciation and amortisation	(5,463,478)	(5,155,219)
Operating profit/(loss) before interest and tax	4,058,212	(3,897,834)
Restructuring costs	(847,373)	-
Finance costs	(811,927)	(1,062,697)
Finance income	72,012	80,025
Profit/(loss) before tax	2,470,924	(4,880,506)
Income tax expense	(1,115,957)	(569,806)
Profit/(loss) for the year	1,354,967	(5,450,312)
Other comprehensive income:		
Exchange differences on translating foreign operations	-	(63,949)
Revaluation of properties	-	1,476,801
	-	1,412,852
Total comprehensive income/(loss) for the year	1,354,967	(4,037,460)
Profit/(loss) attributable to:		
Owners of the parent	1,609,810	(5,386,179)
Non-controlling interests	(254,843)	(64,133)
	1,354,967	(5,450,312)
Total comprehensive income/(loss) attributable to:		
Owners of the parent	1,609,810	(3,990,765)
Non-controlling interests	(254,843)	(46,695)
	1,354,967	(4,037,460)
Earnings/(loss) per share (cents)		
Basic	0.45	(1.50)
Diluted	0.45	(1.50)
Shares in issue and weighted average number of shares	358,000,858	358,000,858
Weighted average shares adjusted for the effect of dilution	358,000,858	358,000,858

GROUP STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2017

	31 December 2017 US\$	31 December 2016 US\$
Operating activities:		
Profit/(loss) before tax	2,470,924	(4,880,506)
Non-cash items	5,372,044	7,618,588
Working capital adjustments	(1,465,031)	1,964,125
Income tax paid	(138,631)	(206,602)
Net cashflows from operating activities	6,239,306	4,495,605
Investing activities:		
Acquisition of property, plant and equipment and intangible assets	(1,972,297)	(5,182,591)
Proceeds from sale of property, plant and equipment and assets classified as held for sale	719,496	543,212
Other investing cash flows	378,749	80,225
	(874,052)	(4,559,354)
Financing activities:		
Movement in borrowings	(2,370,448)	(25,100)
Net cash used in financing activities	(2,370,448)	(25,100)
Increase/(decrease) in cash and cash equivalents	2,994,806	(88,849)
Net foreign exchange difference	-	13,905
Cash and cash equivalents at beginning of period	2,734,971	2,809,815
Cash and cash equivalents at the end of period	5,729,777	2,734,971

ABRIDGED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2017

	Attributable to equity holders of the parent				Non-controlling interests US\$	Total equity US\$
	Share Capital US\$	Share Premium US\$	Non-distributable reserves US\$	Retained earnings US\$		
As at 1 January 2016	35,800	1,379,664	23,268,443	23,164,575	253,630	48,102,112
Total comprehensive income	-	-	1,395,414	(5,386,179)	(46,695)	(4,037,460)
Loss for the year	-	-	-	(5,386,179)	(64,133)	(5,450,312)
Other comprehensive income	-	-	1,395,414	-	17,438	1,412,852
Transfer to retained earnings on sale of assets	-	-	(190,234)	190,234	-	-
As at 31 December 2016	35,800	1,379,664	24,473,623	17,968,630	206,935	44,064,652
Total comprehensive income	-	-	-	1,609,810	(254,843)	1,354,967
Profit/(loss) for the year	-	-	-	1,609,810	(254,843)	1,354,967
Other comprehensive income	-	-	-	-	-	-
Transfer to retained earnings on sale of assets	-	-	(130,547)	130,547	-	-
As at 31 December 2017	35,800	1,379,664	24,343,076	19,708,987	(47,908)	45,419,619

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The Group's financial statements, of which the abridged results are an extract, were prepared in accordance with International Financial Reporting Standards (IFRS) and are based on statutory records that are maintained under the historical cost convention except for land and buildings, and investment property that have been measured at fair value.

The financial results are presented in United States dollars (US\$), being the functional and reporting currency of the primary economic environment in which the Group operates.

2. Significant accounting policies

The accounting policies adopted are consistent with those of the previous period. The standards which became effective 1 January 2017 had no significant impact on the financial statements.

3. Approval of financial statements

The underlying financial statements to these results were approved by the Board on 8 March 2018.

4. Segment information

The Group has 4 operating segments (2016:5) which are listed below. The logistics business, which operated as a separate business segment in 2016 was integrated into manufacturing operations in 2017.

Zimbabwe manufacturing and distribution - manufacture and marketing of milks, foods and beverages
Malawi manufacturing and distribution - manufacture and marketing of milks, foods and beverages
Properties - leasing of properties
Corporate - management services

	Manufacturing & distribution (Zimbabwe) US\$	Manufacturing & distribution (Malawi) US\$	Logistic US\$	Properties US\$	Corporate US\$	Adjustments and eliminations US\$	Consolidated US\$
Year ended 31 December 2017							
Revenue							
External customers	99,757,716	3,306,059	-	83,662	-	-	103,147,437
Inter-segment	221,877	-	-	664,152	1,480,936	(2,366,965)	-
Total revenue	99,979,593	3,306,059	-	747,814	1,480,936	(2,366,965)	103,147,437
Results							
Depreciation and amortisation	4,946,275	83,758	-	324,246	109,199	-	5,463,478
Operating profit/(loss)	3,944,267	(550,836)	-	378,469	286,312	-	4,058,212
Segment assets	52,735,455	2,912,533	-	23,892,146	59,443,996	(66,765,506)	72,218,524
Segment liabilities	29,243,892	3,064,147	-	609,216	11,439,424	(17,557,774)	26,798,905
Capital expenditure	1,555,271	851,510	-	2,550	783	-	2,410,114
Year ended 31 December 2016							
Revenue							
External customers	89,884,323	3,218,084	235,566	84,880	-	-	93,422,853
Inter-segment	5,913,362	126,665	8,054,105	664,152	-	(14,758,284)	-
Total revenue	95,797,685	3,344,749	8,289,671	749,032	-	(14,758,284)	93,422,853
Results							
Depreciation and amortisation	4,278,578	119,454	502,026	153,592	101,268	-	5,155,218
Operating profit/(loss)	(4,180,555)	(145,596)	476,125	570,639	(242,568)	(375,879)	(3,897,834)
Segment assets	53,384,615	1,682,117	7,339,907	23,716,029	62,539,649	(74,126,074)	74,536,243
Segment liabilities	36,140,439	1,027,261	2,856,568	678,085	14,598,583	(24,829,345)	30,471,591
Capital expenditure	5,110,626	17,571	215,286	-	60,012	-	5,403,495

2017 2016

5. Depreciation and amortisation charge

5,463,478 5,155,219

6. Capital expenditure for the period

2,410,114 5,