

Delta Corporation

LIMITED

AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 MARCH 2019

SALIENT FEATURES

REVENUE
INCREASED BY 26% TO
RTGS\$722,4 million

OPERATING INCOME
INCREASED BY 68% TO
RTGS\$175,5 million

EBITDA
Increased by 58% to RTGS\$212,4 million

EARNINGS PER SHARE
Increased by 55% to RTGS11,19 cents

ATTRIBUTABLE INCOME
Increased by 58% to RTGS\$140,7 million

DIVIDEND PER SHARE
Normal Dividend paid - RTGS9,50 cents
Special Dividend paid - RTGS4,50 cents

NET FUNDING
Net cash - RTGS\$110,2 million

TAX REMITTANCES
Total Tax paid - RTGS\$217,5 million

GROUP STATEMENT OF FINANCIAL POSITION

	AUDITED As At 31 March 2019 RTGS\$'000	AUDITED As At 31 March 2018 RTGS\$'000
ASSETS		
Non-current assets		
Property, plant and equipment	787 037	366 857
Investment in associates	43 768	47 439
Intangible assets - Trademarks and Goodwill	61 849	17 514
Investments and loans	8 589	8 482
	901 243	440 292
Current assets		
Inventories	128 863	66 007
Trade and other receivables	46 940	33 727
Current tax asset	8 774	6 148
Cash and cash equivalents	264 091	291 226
	448 668	397 108
TOTAL ASSETS	1 349 911	837 400
EQUITY AND LIABILITIES		
Capital and reserves		
Issued share capital	12 526	12 361
Share premium	83 170	44 976
Share option reserve	3 921	4 678
Change in functional currency reserve	297 748	—
Retained earnings	373 976	434 764
Equity attributed to equity holders of the parent	771 341	496 779
Adjustment arising from change in non- controlling interest	(1 107)	—
Non-controlling interests	32 763	5 427
Shareholders' equity	802 997	502 206
Non-current liabilities		
Long term borrowings	105 443	42 746
Deferred tax liabilities	57 761	55 639
	163 204	98 385
Current liabilities		
Short term borrowings	48 445	12 400
Trade and other payables	284 018	158 841
Dividend payable	44 407	59 443
Current tax liability	6 840	6 125
	383 710	236 809
TOTAL EQUITY AND LIABILITIES	1 349 911	837 400
Net asset value per share (cents)	61,58	40,37

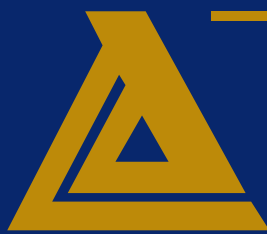
GROUP STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	AUDITED Year ended 31 March 2019 RTGS\$'000	AUDITED Year ended 31 March 2018 RTGS\$'000
Revenue	722 384	572 227
Operating income	175 488	104 715
Finance charges	(21 138)	(5 898)
Finance income	16 385	12 148
Share of profit of associates	10 800	4 334
Profit before tax	181 535	115 299
Income tax expense	(38 301)	(26 791)
Profit for the year	143 234	88 508
Other comprehensive income	—	—
Total comprehensive income for the year	143 234	88 508
Profit for the year attributable to:		
Owners of the parent	140 661	88 829
Non controlling interest	2 573	(321)
	143 234	88 508
Weighted average shares in issue (millions)	1 257,5	1 230,4
Earnings per share (RTGS cents)		
Attributable earnings basis	11,19	7,22
Fully diluted earnings basis	11,05	7,20

GROUP STATEMENT OF CASH FLOWS

	AUDITED Year ended 31 March 2019 RTGS\$'000	AUDITED Year ended 31 March 2018 RTGS\$'000
Cash flow from operating activities		
Operating income	175 488	104 715
Depreciation	36 896	29 388
Other non-cash items	63 840	10 421
(Increase)/decrease in working capital	(17 783)	76 957
Cash generated from operations	258 441	221 481
Finance charges	(21 138)	(5 898)
Finance income	16 385	12 148
Income tax paid	(41 700)	(21 433)
Net cash flow from operating activities	211 988	206 298
Cash flow from investing activities		
Purchase of property, plant and equipment for maintaining operations	(11 844)	(6 779)
Purchase of property, plant and equipment for expanding operations	(7 734)	(7 112)
Net cash and purchase of shares in subsidiary	18 685	(14 658)
Dividend received from associate	392	482
(Increase)/decrease in loans and investments	(240)	1 141
Proceeds from disposal of property, plant and equipment	4 081	141
Net cash invested	3 340	(26 785)
Cash flow from financing activities		
Dividends paid in cash	(225 594)	(54 228)
Increase in shareholder funding	5 695	11 151
Share buy back	(21 264)	(3 491)
Decrease in short term borrowings	(1 300)	(47 600)
Increase in long term borrowings	—	32 547
Net cash flow used in financing activities	(242 463)	(61 621)
Net (decrease) / increase in cash and cash equivalents	(27 135)	117 892
Cash and cash equivalents at beginning of year	291 226	173 334
Cash and cash equivalents at end of year	264 091	291 226

Brighter Together



Delta Corporation

LIMITED

AUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 MARCH 2019

GROUP STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	AUDITED Year ended 31 March 2019 RTGSS'000	AUDITED Year ended 31 March 2018 RTGSS'000
Shareholders' equity at beginning of the year	502 206	475 667
Share options exercised	5 695	11 151
Share allotment	53 326	8 395
Share buy back	(21 264)	(3 491)
Recognition of share based payments	2 128	1 193
Foreign currency translation reserve	9 750	730
Total comprehensive income for the year	143 234	88 508
Recognition of functional currency change	297 748	—
Dividends declared:		
- Prior year	(33 502)	(29 891)
- Current year	(177 056)	(55 585)
Non controlling interest arising on acquisition of subsidiaries	20 732	5 529
Shareholders' equity at end of the year	802 997	502 206
Attributable to:		
Owners of the parent	770 234	496 779
Non controlling interest	32 763	5 427
	802 997	502 206

SUPPLEMENTARY INFORMATION

	AUDITED Year ended 31 March 2019 RTGSS'000	AUDITED Year ended 31 March 2018 RTGSS'000
1. Revenue		
Gross sales	841 488	667 522
Less VAT and discounts	(119 104)	(95 295)
Revenue	722 384	572 227
Less excise duty and levies	(103 110)	(67 510)
Net Sales	619 274	504 717
2. Depreciation of property, plant and equipment	36 896	29 388
3. Taxation		
Current income tax expense	40 964	23 853
Withholding tax	362	403
Deferred tax - Arising during the year	(3 025)	2 535
	38 301	26 791
4. Commitments for capital expenditure		
Contracts and orders placed	—	3 000
Authorised by directors but not contracted for	257 501	52 061
	257 501	55 061

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

	Lager Beer RTGSS'000	Sparkling Beverages RTGSS'000	Sorghum Beer RTGS'000	Wines and Spirits RTGSS'000	Total Reportable Segments RTGSS'000	All Other Segments RTGSS'000	Total RTGSS'000
5. Reportable segments							
31 March 2019							
Segment revenue	346 329	99 002	251 288	25 714	722 333	25 137	747 470
Inter-segment revenue	—	—	—	—	—	(25 086)	(25 086)
External revenue	346 329	99 002	251 288	25 714	722 333	51	722 384
Segment operating income/(loss)	94 943	(690)	70 456	9 507	174 216	1 272	175 488
31 March 2018							
Segment revenue	232 949	160 442	178 027	—	571 418	18 153	589 571
Inter-segment revenue	—	—	—	—	—	(17 344)	(17 344)
External revenue	232 949	160 442	178 027	—	571 418	809	572 227
Segment operating income	40 177	20 414	36 477	—	97 068	7 647	104 715

The Sparkling Beverages Business and associate entity Schweppes Holdings Africa produce brands under licence from The Coca-Cola Company (TCCC) in terms of bottlers' agreements. Following the merger of SABMiller and AB InBev in October 2016, TCCC has indicated an intention to terminate these bottlers agreements and that TCCC and AB InBev are pursuing strategies that could result in a restructure of these business entities. There are ongoing discussions amongst the parties that are expected to result in the withdrawal of the notified intention.

6. Currency change

In February 2019, the Government of Zimbabwe issued Statutory Instrument 33 of 2019, which directed that all assets and liabilities that were in United States Dollars (US\$) immediately before 20 February 2019 be deemed to have been in RTGSS\$ at a rate of 1:1 to the US\$. The guidance issued by the Public Accountants and Auditors Board (PAAB) notes that this is contrary to IAS21 on foreign currency translation. The Company has reported the Statement of Profit or Loss and Other Comprehensive Income on the basis of the 1:1 in compliance with SI33 and in recognition of the multiple exchange rates that were imputed in commercial transactions. In order to comply with IAS 21 into the future, the Company translated the Statement of Financial Position as at 22 February 2019 at the commencement RTGSS\$ rate of 2.5 to the US\$. All transactions post this date are translated in accordance with IAS21 at the official inter bank rate. The Company has recognised a net increase in assets of RTGSS\$297,7 million arising from the rebasing to RTGSS\$ which has been recorded as a non-distributable currency translation reserve.

SUPPLEMENTARY INFORMATION (continued)

7. Contingencies

The Zimbabwe Revenue Authority has raised tax assessments of RTGSS\$27,8 million for the period 2009 to 2014 based on disallowing expenditure on royalties and technical assistance fees. Based on the legal advice received to date the Board is of the view that the Company has acted within the confines of existing statutes. Consequently, no provision has been made pending the resolution of the matter which is now before the courts. Delta Board cannot at this stage estimate the likely timing of the resolution of the matters.

8. Accounting policies

Accounting policies are consistent with those used in the previous year with no significant impact arising from new and revised International Financial Reporting Standards applicable for the year ended 31 March 2019.

9. Audit Opinion

These condensed financial results should be read in conjunction with the complete set of financial statements of Delta Corporation Limited for the financial year ended 31 March 2019, which have been audited by Deloitte & Touche and an adverse opinion issued thereon. The basis for the adverse opinion pertains to non compliance with International Accounting Standard 21 "The effects of changes in Foreign Exchange Rates". The auditor's report is available for inspection at the Company's registered address.

COMMENTARY

DEAR SHAREHOLDER

The last year was one of two trading halves. The first half, which covered the pre- and post-election period, was characterised by initial positive consumer sentiment, expansionary monetary and fiscal policies that drove consumer spending. The shortage of foreign currency became more pronounced in the second half thus compromising product supply.

The fiscal and monetary policies implemented between October 2018 and February 2019 have significantly altered the trading environment. Of particular note is the 2% transaction tax, the adoption of the local currency (RTGSS\$) as the functional currency and the introduction of an exchange rate on the RTGSS\$. The cost of hard currency continues to escalate thereby driving inflation.

The acute shortage of foreign currency persists despite the introduction of the inter-bank foreign exchange market. We have outstanding foreign creditors and loans, the bulk of which is overdue. We remain engaged with our counter parties in this regard.

The Board is concerned about the Company's ability to access foreign currency in order to meet its external obligations. Strategies to mitigate this challenge are ongoing including contracting for additional barley to generate exports.

CURRENCY CHANGES

The Monetary Authorities introduced the RTGSS\$ as the transactional and functional currency on 22 February 2019. The financial statements have been translated from the USD currency in line with the provisions of the international financial reporting standards and as informed by Statutory Instrument 33 of 2019 (SI33/19). The Board has therefore rebased assets and liabilities to reflect this change of currency as is more fully covered in the notes to the financial statements. The Board advises users of these financial statements to exercise caution especially on the Statement of Comprehensive Income which complies with SI33/19 but is not in line with International Financial Reporting Standards as it is a summation of different currency values at the time of trade.

In light of the failure to fully comply with the requirements of IAS21 the Company's External Auditors have issued a modified opinion on the Financial Statements for the year ended 31 March 2019.

TRADING PERFORMANCE

Volume across the beverage categories benefited from the first nine months of buoyant trading where prices were stable but was constrained in the last quarter due to supply challenges and increases in wholesale and retail prices.

Lager Beer

Lager beer volume was up by 31% on prior year. The volume achieved was at par with the historical peak of F13. This was achieved through stable pricing, steady production output and extensive distribution. Both the mainstream and premium categories registered growth driven by Zambezi Lager and Castle Lite.

Sorghum Beer (Zimbabwe)

Sorghum beer achieved a volume growth of 5% above prior year as demand for the category remained firm despite the cost pressures on imported packaging materials, spares and the repricing of agricultural cereals in the fourth quarter. Chibuku Super contributed 85% of the total category volume. The demand for Chibuku Super exceeded the installed production capacity. There are plans to build a modern brewery at a new site at Rusape in the coming year.

Sparkling Beverages

The Sparkling beverages volume declined by 44% on prior year. The growth registered in the first half of the year was reversed by the lack of product in the second half. The division was adversely affected by severe foreign currency constraints particularly after the monetary policies of October 2018. The division was virtually closed in the last quarter of the year due to critical raw material outages. The Company has since worked with its partner, The Coca-Cola Company to restore normal operations.

National Breweries (Zambia)

The Sorghum beer volume at National Breweries Plc in Zambia (Natreb Plc) was flat on prior year. The volume trends remain variable against both formal and informal competitor activity which has alternative subsistence offerings. The entity continues to explore opportunities of stabilising volume performance and operational efficiency.

Afdis

The Group's effective shareholding in Afdis increased to 50,37% hence the entity has been consolidated as a subsidiary. The business continues to perform well given the economic constraints.

Associates – Schweppes and Nampak

Schweppes

Persistent foreign currency shortages hampered the trading performance of Schweppes. Though long lead times in procuring critical inputs and pricing distortions hampered trading, the financial performance was satisfactory.

Nampak

Demand across operating units of the business was firm despite the challenges induced by critical imported inputs. Profitability was aided by good volume growth and cost containment measures adopted across the Group.

FINANCIAL PERFORMANCE

The Group achieved Earnings Before Interest and Tax of RTGSS\$175,5 million up 68% on prior year driven by the domestic beer segment. Net funding of RTGSS\$110,2 million was after the early payment of the final and special dividends in March 2019 reflecting good cash generation, limited capital expenditure and the delays in settling foreign obligations. Although cash covered, the Group's foreign currency exposure of US\$85 million included in the short and long term payables remains a concern given the instability of the RTGSS\$ currency and constraints in accessing hard currency. The financial statements reflect a currency change on 22 February 2019. The exchange rate movement after that date has been booked as an exchange loss which offset the interest earnings to net finance cost.

ACQUISITION OF UNITED NATIONAL BREWERIES (PTY) LIMITED SA

The Company announced on 21 December 2018 that it had entered into binding agreements to acquire the 100% stake currently held by Diageo Plc in United National Breweries (Proprietary) Limited (South Africa), (UNB). UNB is the leading brewer of traditional beer and owns the Chibuku brand in that country. Efforts are underway to finalise the transaction per agreed timeframes.

THE COCA-COLA BOTTLER'S AGREEMENT

Shareholders are reminded that the Company is trading under a cautionary issued with respect to the notice received from The Coca-Cola Company (TCCC) advising of an intention to terminate the Bottler's Agreements with the Group entities (Notified Intention). This followed the merger of AB InBev and SABMiller Plc in October 2016 and the subsequent agreement in principle reached between TCCC and AB InBev to explore options to restructure the bottling operations in a number of countries. There are ongoing discussions amongst the parties that are expected to result in the withdrawal of the notified intention.

DIRECTORATE

The Board of Directors welcomes Mrs Emma Fundira and Ms Lucia Adele Swartz who were appointed to the Board on 1 January, 2019. Mr Ricardo Tadeu Almeida Cabral de Soares resigned as a director of the Company following his reassignment to a different role within AB InBev. The Board bids farewell to Professor Hope Sadza who retired from the Board after serving for 11 years. We thank both for their valuable contributions to the Company.

OUTLOOK

The economy is in transition with Government pursuing a stabilisation plan which is expected to improve the fortunes of the nation. The Company will endeavour to do its part in support of the economic recovery. In the meantime the reduced disposable income and difficult operating environment has resulted in subdued trading at the front end of the new year. The Board will continue to deploy strategies that protect the Company and its stakeholders and to deliver value to all.

DIVIDEND

With the changed currency environment the Board declared and paid quarterly dividends amounting to 9.5 cents per share and a special dividend of 4.5 cents per share giving a total dividend of 14 cents per share at RTGSS\$177 million. The special dividend was paid from accumulated reserves.

For and on behalf of the Board

CF Dube
Chairman
16 May 2019