

Delta Corporation LIMITED

UNAUDITED FINANCIAL INFORMATION FOR THE PERIOD ENDED 30 SEPTEMBER 2019



SALIENT FEATURES

INFLATION ADJUSTED

REVENUE
DECREASED BY 2% TO
ZWL1,5 billion

OPERATING INCOME
INCREASED BY 54% TO
ZWL462,9 million

EARNINGS PER SHARE
INCREASED BY 35% TO
ZWL28,69 cents

HISTORIC COST

REVENUE
Increased by 208% to ZWL1,1 billion

OPERATING INCOME
Increased by 402% to ZWL329,5 million

EBITDA
Increased by 357% to ZWL373,8 million

EARNINGS PER SHARE
Increased by 351% to ZWL20,87 cents

ATTRIBUTABLE INCOME
Increased by 358% to ZWL266 million

DIVIDEND PER SHARE
Interim dividend declared - ZWL6,75 cents

NET FUNDING
Net funds - ZWL57,4 million

GROUP STATEMENT OF FINANCIAL POSITION

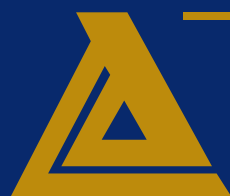
	INFLATION ADJUSTED		HISTORIC COST	
	UNAUDITED As At 30 September 2019 ZWL 000	UNAUDITED As At 31 March 2019 ZWL 000	UNAUDITED As At 30 September 2019 ZWL 000	AUDITED As At 31 March 2019 ZWL 000
ASSETS				
Non-current assets				
Property, plant and equipment	2 940 509	2 189 540	2 940 509	787 037
Investments in associates	193 256	121 763	88 818	43 768
Intangible assets - Goodwill	52 456	50 254	18 064	18 064
Intangible assets - Trademarks	175 138	121 810	175 138	43 785
Investments and loans	29 363	23 895	29 363	8 589
	3 390 722	2 507 262	3 251 892	901 243
Current assets				
Inventories	611 330	358 497	533 964	128 863
Trade and other receivables	365 658	130 587	276 454	46 940
Current tax asset	18 552	24 409	18 552	8 774
Cash and cash equivalents	295 504	734 702	295 504	264 091
	1 291 044	1 248 195	1 124 474	448 668
TOTAL ASSETS	4 681 766	3 755 457	4 376 366	1 349 911
EQUITY AND LIABILITIES				
Capital and reserves				
Issued share capital	35 451	35 279	12 756	12 681
Share premium	238 542	230 948	86 768	83 015
Share option reserve	14 157	10 908	6 747	3 921
Change in functional currency reserve	751 660	828 336	2 430 334	297 748
Retained earnings	2 234 343	1 040 402	676 538	373 976
Equity attributed to equity holders of the parent	3 254 153	2 145 873	3 213 143	771 341
Non-controlling interests	104 888	88 067	59 524	31 656
Shareholders' equity	3 359 041	2 233 940	3 272 667	802 997
Non-current liabilities				
Long term borrowings	151 569	293 343	151 569	105 443
Deferred tax liabilities	334 068	160 691	115 042	57 761
	485 637	454 034	266 611	163 204
Current liabilities				
Short term borrowings	86 545	134 774	86 545	48 445
Trade and other payables	693 286	790 140	693 286	284 018
Dividend payable	44 407	123 540	44 407	44 407
Current tax liability	12 850	19 029	12 850	6 840
	837 088	1 067 483	837 088	383 710
TOTAL EQUITY AND LIABILITIES	4 681 766	3 755 457	4 376 366	1 349 911

GROUP STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	INFLATION ADJUSTED		HISTORIC COST	
	UNAUDITED Period Ended 30 September 2019 ZWL 000	UNAUDITED Period Ended 30 September 2018 ZWL 000	UNAUDITED Period Ended 30 September 2019 ZWL 000	UNAUDITED Period Ended 30 September 2018 ZWL 000
Revenue	1 532 696	1 570 635	1 051 691	341 417
Operating income	462 932	301 552	329 457	65 597
Finance charges	(33 543)	(7 649)	(28 481)	(3 481)
Finance income	22 377	38 153	15 019	10 129
Net monetary loss	(34 054)	—	—	—
Share of profit of associates	66 159	16 381	42 925	3 573
Profit before tax	483 871	348 437	358 920	75 818
Income tax expense	(101 445)	(85 501)	(81 369)	(18 603)
Profit for the period	382 426	262 936	277 551	57 215
Other comprehensive income	731 660	—	2 132 586	—
Total comprehensive income for the period	1 114 086	262 936	2 410 137	57 215
Profit for the period attributable to:				
Owners of the parent	1 097 265	266 398	2 398 583	57 965
Non controlling interest	16 821	(3 462)	11 554	(750)
	1 114 086	262 936	2 410 137	57 215
Weighted average shares in issue (millions)	1 274,3	1 250,6	1 274,3	1 250,6
Earnings per share (ZWL cents)				
Headline earnings basis	28,69	21,30	20,87	4,63
Attributable earnings basis	28,69	21,30	20,87	4,63

GROUP STATEMENT OF CASH FLOWS

	INFLATION ADJUSTED		HISTORIC COST	
	UNAUDITED Period Ended 30 September 2019 ZWL 000	UNAUDITED Period Ended 30 September 2018 ZWL 000	UNAUDITED Period Ended 30 September 2019 ZWL 000	UNAUDITED Period Ended 30 September 2018 ZWL 000
Cash flow from operating activities				
Operating income	462 932	301 552	329 457	65 597
Depreciation	72 362	73 446	44 363	16 202
Other non-cash items	(307 669)	34 302	57 959	8 573
(Increase)/decrease in working capital	(584 758)	127 281	(322 144)	28 078
Cash (utilised in)/generated from operations	(357 133)	536 581	109 635	118 450
Finance charges	(33 543)	(7 649)	(28 481)	(3 481)
Finance income	22 377	38 153	15 019	10 129
Income tax paid	(12 204)	(71 832)	(12 204)	(15 846)
Net cash flow from operating activities	(580 503)	495 253	85 969	109 252
Cash flow from investing activities				
Purchase of fixed assets for maintaining operations	(16 848)	(18 368)	(15 072)	(4 052)
Purchase of fixed assets for expanding operations	(32 396)	(7 910)	(24 095)	(1 745)
(Increase)/decrease in investments and loans	(20 774)	734	(20 774)	162
Proceeds from disposal of property, plant and equipment	5 317	295	5 317	65
Net cash invested	(64 701)	(25 249)	(54 624)	(5 570)
Cash flow from financing activities				
Dividends paid in cash	(1 760)	(295 900)	(1 760)	(65 275)
Increase in shareholder funding	7 766	143 587	3 828	31 675
Share buy back	—	(16 841)	—	(3 715)
Increase in long term borrowings	—	(36 138)	—	(7 972)
Net cash flow generated/(used) in financing activities	6 006	(205 292)	2 068	(45 287)
Net (decrease)/increase in cash and cash equivalents	(439 198)	264 712	31 413	58 395
Cash and cash equivalents at beginning of period	734 702	1 320 163	264 091	291 226
Cash and cash equivalents at end of period	295 504	1 584 875	295 504	349 621



Delta Corporation LIMITED

UNAUDITED FINANCIAL INFORMATION FOR THE PERIOD ENDED 30 SEPTEMBER 2019

GROUP STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	INFLATION ADJUSTED		HISTORIC COST	
	UNAUDITED Period Ended 30 September 2019 ZWL 000	UNAUDITED Year Ended 31 March 2019 ZWL 000	UNAUDITED Period Ended 30 September 2019 ZWL 000	AUDITED Year ended 31 March 2019 ZWL 000
Shareholders' equity at beginning of the period / year	2 233 940	1 397 141	802 997	502 206
Share options exercised	7 766	15 844	3 828	5 695
Share allotment	—	148 353	—	53 326
Share buy back	—	(59 157)	—	(21 264)
Recognition of share based payments	3 249	5 920	2 826	2 128
Foreign currency translation reserve	—	27 125	52 879	9 750
Profit for the period / year	382 426	398 478	277 551	143 234
Other comprehensive income for the period / year	731 660	—	2 132 586	—
Recognition of currency change	—	828 333	—	297 748
Dividends declared:				
- Prior year	—	(93 203)	—	(33 502)
- Current year	—	(492 371)	—	(177 056)
Non controlling interest arising on acquisition of subsidiaries	—	57 677	—	20 732
Shareholders' equity at end of the period / year	3 359 041	2 233 940	3 272 667	802 997
Attributable to:				
Owners of the parent	3 254 153	2 145 873	3 213 143	771 341
Non controlling interest	104 888	88 067	59 524	31 656
	3 359 041	2 233 940	3 272 667	802 997

SUPPLEMENTARY INFORMATION

REFERENCES ARE TO HISTORICAL INFORMATION

	UNAUDITED Period Ended 30 September 2019 ZWL 000	UNAUDITED Period Ended 30 September 2018 ZWL 000
1. REVENUE		
Gross sales	1 216 133	399 098
Less VAT and discounts	(164 442)	(57 681)
Revenue	1 051 691	341 417
Less excise duty and levies	(122 391)	(46 896)
Net Sales	929 300	294 521
2. DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT	44 363	16 202
3. TAXATION		
Current income tax expense	18 214	17 267
Withholding tax	144	198
Deferred tax - Arising during the year	63 011	1 138
	81 369	18 603
4. COMMITMENTS FOR CAPITAL EXPENDITURE		
Contracts and orders placed	37 380	—
Authorised by directors but not contracted	142 620	51 000
	180 000	51 000

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

	Lager Beer ZWL 000	Sparkling Beverages ZWL 000	Sorghum Beer ZWL 000	Wines and Spirits ZWL 000	Total Reportable Segments ZWL 000	All Other Segments ZWL 000	Total ZWL 000
5. REPORTABLE SEGMENTS							
30 September 2019							
Segment revenue	381 121	125 929	469 009	80 267	1 056 326	24 413	1 080 739
Inter-segment revenue	—	—	—	—	—	(29 048)	(29 048)
External revenue	381 121	125 929	469 009	80 267	1 056 326	(4 635)	1 051 691
Segment operating income	119 146	34 125	122 465	35 944	311 680	17 777	329 457
30 September 2018							
Segment revenue	159 522	69 465	114 698	—	343 685	9 014	352 699
Inter-segment revenue	—	—	—	—	—	(11 282)	(11 282)
External revenue	159 522	69 465	114 698	—	343 685	(2 268)	341 417
Segment operating income	36 822	5 732	24 849	—	67 403	(1 806)	65 597

SUPPLEMENTARY INFORMATION (continued)

	UNAUDITED Period Ended 30 September 2019 ZWL 000	UNAUDITED Period Ended 30 September 2018 ZWL 000	AUDITED Year ended 31 March 2019 ZWL 000
6. TRADE AND OTHER PAYABLES			
Local Trade and other Payables	424 067	91 760	111 333
Foreign Payables	82 672	53 440	130 258
VAT and Excise Duty	55 221	13 573	16 370
Container Liability	131 326	21 604	26 057
	693 286	180 377	284 018

7. CURRENCY CHANGES

The financial statements are presented in the ZWL currency that was designated as the sole transactional, functional and reporting currency through Statutory Instrument 33 of 2019 (SI33/19) dated 22 February 2019 and Statutory Instrument 142 of 2019 (SI142/19) dated 24 June 2019. In order to fairly present the statement of financial position and reflect the change of currency, the Board re-based the assets and liabilities as at 22 February 2019 at the interbank rate of ZWL2,5 to US\$1.

The ZWL currency has depreciated sharply since the re-basing exercise undertaken in February 2019 with the interbank rate closing at ZWL15,7 to US\$1 on 30 September 2019. Board is of the opinion that the currency has not yet stabilised and thus has undertaken another re-basing of its assets and liabilities. In summary, the implied average fair market exchange rate for the period of ZWL10 to US\$1 has been applied to uplift the values of its property, plant and equipment and other long-term assets whilst foreign liabilities are recorded at the closing exchange rate.

The Company has agreed on a settlement plan with the Reserve Bank of Zimbabwe based on the exchange control directives RU102 and RU28 of 2019 on the foreign payables (blocked funds) as at 22 February 2019. Consequently, these legacy debts are carried at the expected settlement exchange rates.

The interim financial results are reported in current cost terms in line with the provisions of IAS 29 Financial Reporting in Hyperinflationary Economies. In order to comply with IAS 21 (The effects of changes in Foreign Exchange Rates), the exchange differences are adjusted for through the statement of comprehensive income.

8. ACCOUNTING POLICIES

Accounting policies applied are consistent with those used in the previous year.

Inflation adjustment

The condensed consolidated interim financial results have been prepared under the current cost basis in line with the provisions of International Accounting Standard (IAS) 29 – Financial Reporting in Hyperinflationary Economies. The Public Accountants and Auditors Board (PAAB) pronounced that the economy is trading under the conditions of hyperinflation in line with IAS 29 (Pronouncement 1/2019). The directors have applied the guidelines provided by PAAB and the accounting bodies and made various assumptions to produce the inflation adjusted financial information. The conversion factors have been computed from the consumer price index (CPI) data prepared by the Zimbabwe Central Statistical Office as reported on the Reserve Bank of Zimbabwe website. The conversion factors used to restate the interim financial results are as follows:

	Index	Conversion Factor
30 September 2019	290,4	1,000
31 March 2019	104,4	2,780
30 September 2018	64,1	4,530
31 March 2018	62,6	4,640
Average CPI for the 6 months to:		
30 September 2019	192,1	
30 September 2018	63,1	

9. CONTINGENCIES

9.1 ASSESSED TAXES

The Special Court for Income Tax Appeal ruled in favour of the Company and reversed the tax assessments of \$27,8 million previously reported as a contingent liability. The Zimbabwe Revenue Authority has noted an appeal against the judgement.

9.2 LEGACY FOREIGN LIABILITIES

The Company has legacy foreign liabilities, being those amounts that were due and payable on 22 February 2019 when the authorities promulgated SI33/2019 which introduced the ZWL currency, as distinct from the US\$, as the functional currency. The Company has registered these liabilities with the Reserve Bank of Zimbabwe and made savings bond deposits as full cash cover in line with Directives RU102/2019 and RU28/2019 and as agreed with the Reserve Bank of Zimbabwe. The Board notes that there remains a risk that the authorities may vary the policies regarding these liabilities. Such a change would have a significant impact on both the statement of financial position and the statement of comprehensive income. The divergence in the willing buyer - willing seller market exchange rates and the reported interbank exchange rate creates a further risk that the "blocked funds" liabilities could be paid at exchange rates that are above the Reserve Bank of Zimbabwe settlement rates.

The potential increase in both liabilities and exchange losses is ZWL 1,2 billion as 30 September 2019.

10. AUDIT REVIEW OF INTERIM REPORT

In terms of the Zimbabwe Stock Exchange Practice Note No. 2, the mandatory review of interim financial statements by external auditors becomes effective for periods ending on or after 31 December 2019. Consequently, this report has been presented as unaudited.

COMMENTARY

DEAR SHAREHOLDER

The operating environment continued to deteriorate during the period under review. Our production and distribution operations were disrupted by the shortages of electricity and fuel, which in themselves are a manifestation of the limited availability of foreign currency. The sourcing of imported goods and services remains constrained by the shortages of foreign currency, particularly in view of the backlog in settling past due obligations.

Zimbabwe shifted from the multi-currency trading and reverted to the Zimbabwe Dollar (ZWL) as the sole trading currency at the end of June 2019. The policy changes have led to a surge in inflation and a fast depreciating exchange rate. Consumer spending remains low as incomes have lagged the escalation in prices of goods and services. The Company has been adversely impacted by shortages of potable water, electricity and fuel.

Volume performance is thus constrained and significantly below last year across our product offering.

CURRENCY CHANGES

The monetary authorities introduced the ZWL as the transactional and functional currency on 22 February 2019, a month before our last year end of March 2019. The Board translated the Financial Statements for the year ended March 2019 in line with the International Reporting Standards and as informed by Statutory Instrument 33 of 2019 (SI33/19). The exchange rate used to translate the company's assets and liabilities as at 22 February was ZWL2,5 to the US Dollar. The interbank rate had depreciated to ZWL15 to US\$1 as at 30 September 2019. The Board is of the view that the reporting currency has not yet stabilised and thus has rebased its assets and liabilities as is more detailed on Note 7 to the financial statements. The Board advises users of these financial statements to exercise caution as they are not in compliance with IFRS but in compliance with SI33/19.

APPLICATION OF IAS 29: INFLATION ADJUSTED FINANCIAL STATEMENTS

The Public Accountants and Auditors Board (PAAB) has pronounced that the economy is trading under the conditions of hyperinflation in line with IAS 29 (Pronouncement 1/2019). The directors have applied the guidelines provided by PAAB and the accounting bodies and made various assumptions to produce the inflation adjusted financial information. This was due to the limitation of data available on the consumer price indices from official sources and taking note of the change in the reporting currency.

TRADING PERFORMANCE

Lager Beer

Lager beer volume declined 48% compared to the same period last year. The pricing of this category has been moderated to maintain affordability given the prevailing economic challenges. The premium category has held its contribution driven by Zambezi lager.

Sorghum Beer (Zimbabwe)

Sorghum beer volume declined 15%. The prices of the major inputs such as maize and imported packaging materials rose ahead of disposable incomes. This has put pressure on the sorghum beer prices which has resulted in consumers switching to more affordable brands and packs within the category.

Sparkling Beverages

The Sparkling beverages volume declined 56% on last year mainly due to the prolonged stock outs at the beginning of the financial year. Volume has recovered in the last quarter on the back of improved product supply and moderated retail pricing. Raw material supply remains a challenge as the category has a high import content.

National Breweries PLC (Zambia)

Volume was 20% down on last year which is partly due to higher pricing on the back of a steep increase in maize prices and the depreciation of the Kwacha. Consumer acceptance of the recently launched returnable pack has been encouraging. Product supply is constrained by capacity and power supply disruptions. Chibuku Super and Shake Shake were the dominant packs.

African Distillers

Afdis recorded a soft volume outturn at 41% below prior year due to limitations in accessing and the high cost of foreign currency. The business continues to successfully launch products that are less foreign currency hungry.

ASSOCIATE ENTITIES

Schweppes Holdings Africa

The business experienced reduced volume performance at 33% below prior year on limited foreign currency supply for packaging material and reduced demand from higher pricing. The company is trading profitably, noting the potential adverse impact of exchange losses on legacy foreign liabilities.

Nampak Zimbabwe

The company continues to trade profitably constrained by the falling demand from its customers on account of their depressed volume and foreign currency challenges.

FINANCIAL PERFORMANCE

It is cautioned that the comparative figures have been translated in terms of SI33/19 at the rate of ZWL1 to US\$1. In order to more fairly present the Company's statement of financial position as at 30 September 2019 the Board has re-based the assets and liabilities to the ZWL as detailed on Notes 7 and 8 of the interim financial statements.

The Group achieved Earnings Before Interest and Tax of ZWL\$464 million at 53% above prior year driven by replacement cost pricing in response to inflationary pressures.

Overheads have remained under control in spite of the foreign exchange induced cost escalations.

Foreign currency losses and National Breweries Plc borrowings drove the finance charges.

The business remains cash generative with a closing cash balance of ZWL\$296 million.

The group foreign currency exposure of US\$72 million remains a concern. In line with the Reserve Bank of Zimbabwe (RBZ) directives RU/28 and RU102, the Company has deposited funds with the RBZ as cash cover for the legacy foreign liabilities "blocked funds". We have a plan under execution with the Reserve Bank of Zimbabwe on a phased settlement of these liabilities. In view of these arrangements, the "blocked funds" liabilities have been maintained at the 31 March 2019 interbank exchange rate.

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. The transaction is still pending.

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. The parties are finalising the renewal of the Bottlers Agreement for a three-year term to September 2022.

DIRECTORATE

There have been no changes to the Board of Directors during the period under review. We however bid farewell to Mr T N Sibanda who retires from the Board on 31 December 2019. Mr Sibanda has served the Company with distinction since joining the Board in 1994, most of which time he served as chair of the Audit Committee. The Board extends its thanks and appreciation to Mr Sibanda for his service to the Company.

OUTLOOK

The economy is yet to settle from the turbulence caused by transition from the multi-currency system to the Zimbabwe dollar and the accompanying policy measures in line with the Government Stabilisation Program. The operating environment is expected to remain challenging for the remainder of the year. The company will manage the emerging risks while striving to capture all available opportunities.

DIVIDEND

The Board declared an interim dividend of ZWL 6,75 cents per share which was payable on 4 December 2019. The dividend cover has been increased taking into account the need to fund working capital.

For and on behalf of the Board



CF Dube

Chairman

27 December 2019