

9 April 2018

Zambeef Products plc
(“Zambeef” or the “Group”)

H1 2018 Trading Update

Zambeef (AIM: ZAM), the fully integrated cold chain foods business with operations in Zambia, Nigeria and Ghana, provides an update on its expected trading performance for the half year ending 31 March 2018 and announces that a recent outbreak of Foot & Mouth disease (FMD) may adversely impact its operations and financial performance for the second half of the year.

The Group’s half year interim results are expected to be announced during the week commencing 4 June 2018.

Completion of the disposal of 90 per cent. interest in Zampalm Limited

Firstly, it was pleasing to complete and announce the sale on 6 April 2018 of 90 per cent. of Zambeef’s shareholding in its wholly owned subsidiary, Zampalm Limited, to IDC for a cash consideration of USD16 million in line with the Board’s ongoing strategic focus on reducing Group debt.

Trading Overview

The Group currently expects its Operating Profit on continuing activities for the half year to 31 March 2018 (“H1-FY18”) to be in line with market forecasts.

Gross margins in H1-FY18 across both the Retail and Cold Chain Food Products division and the Stock Feed division are expected to show improvement on the prior half year, when macro conditions in Zambia were challenging, in part, due to falling soft commodity prices. However, this improved performance has been partially negated by higher operating expenses at both divisions (further explained below).

Looking forward into H2-FY18, the Group expects performance from its Stock Feed and Cropping Divisions will be in line with or ahead of market forecasts. However, a recent outbreak of FMD in the Chisamba and Chibombo districts of Zambia may adversely impact profitability in H2-FY18 of the Kalundu dairy production unit within the Cold Chain Food Products division (further explained below). The Company anticipates providing further guidance on expected full year profitability in its interim results.

Group capital expenditure in the full year is now likely to be circa USD16.0 million rather than the USD14.5 million originally projected due to further floor space additions to the new Kitwe beef processing plant, which is expected to open in H2-FY2018, and on a number of the new Retail Macro outlets, as set out further below.

Retailing and Cold Chain Food Products Division

The Group expects overall Zambian retail sales growth of circa 12 per cent. in H1-FY18, with a strong like-for-like performance from Zambeef's concessions within Shoprite's chain of stores.

During the first quarter of the year, three new Zambeef Macro retail stores were successfully opened in Zambia, with a further two Macro stores opened in the second quarter. The Group expects to open a further three Macro stores in the second half of the year. The Group has closed six small retail outlets in its ongoing drive to optimise its retail estate.

Gross profit in the Retail and Cold Chain Food Products business is expected to grow strongly in H1-FY18 versus the prior period, with an improvement in gross profit margins across the beef, chicken and egg categories. However, overhead expenses (principally energy, distribution and HR) across an enlarged retail footprint are expected to increase materially, as Zambia has moved to market-based energy pricing over the past 12 months. Higher distribution costs reflect the introduction of toll fees and in October 2017, a 17 per cent. increase in diesel prices.

FMD outbreak

On 5 April 2018, the Zambian Ministry of Fisheries & Livestock announced an outbreak of FMD on farms in the Chisamba and Chibombo districts and has imposed movement restrictions upon livestock in these districts.

Unfortunately, FMD has spread to, and been confirmed on, the Group's Kalundu dairy farm in Chisamba district and daily milk output has fallen sharply. Whilst the Group does not anticipate having to compulsorily slaughter the entire herd, it is highly likely that a number of animals will have to be culled. Kalundu dairy farm usually supplies 40 per cent. of the Group's raw milk requirements and, at present, our other milk suppliers are unaffected by FMD. Our dairy processing operations and dairy product sales are continuing normally using reconstituted milk to meet any shortfall from Kalundu.

At present the Group's beef feedlot and slaughter operations at Huntley Farm in Chibombo district are continuing to operate albeit with additional bio-security and veterinary supervision measures. The Group notes it has a diversified regional presence operating five other beef abattoirs and a feedlot in areas not currently impacted by FMD.

Looking ahead to H2-FY18, the Group expects performance from its Beef, Chicken, Egg and Fish categories will be in line with market expectations, subject to there being no broadening of the current FMD outbreak. However, we are currently unable to accurately quantify the financial impact of FMD at Kalundu on our Dairy category within the Cold Chain Food Products Division as the herd is still being treated. We will only be able to properly assess the financial impact once we see the level of recovery in milk yields post treatment. Further updates will be provided to the market as and when the Group is able to accurately quantify the impact.

Stock Feed Division

The Stock Feed division has benefited from additional production capacity following the opening of the new Mpongwe mill in August 2017. Sales volumes are expected to increase by circa 35 per cent in H1-FY18, utilising a very pleasing 40 per cent. of the additional available production capacity. However, revenue growth is expected to be flat, reflecting the benefit for livestock producers of lower old crop raw material prices.

Divisional Gross Profit performance has been encouraging, with an improvement in gross margins versus H1-FY17 when margins were compressed due to falling raw material prices. Growth in Operating Profit for the full year is anticipated to be relatively modest given the step change in depreciation expenses on the new mill but is expected to be in line with or above market forecasts.

Cropping Division

Despite the dry conditions in January this year, the Group expects yields from the summer crop (soya and maize) and Operating Profit contribution for H1-FY18 from the Cropping Division to be in line with market expectations.

It should be noted that the performance of the winter crops (irrigated wheat and maize) are a key driver of the Cropping Division's overall full year Operating Profit. Good seasonal rainfall is expected to enable a further approximately 400 hectares of more wheat to be planted than originally budgeted. As these winter crops have yet to be planted, it would be premature for the Directors to comment on crop prospects, other than to note that the recent strengthening of both local and global soya and maize prices from seven year lows is encouraging and should ensure that Operating Profit in H2-FY18 will be in line with or above market expectations.

Francis Grogan, Joint Chief Executive of Zambeef, commented:

“The Group has delivered a solid performance in the first half with improved operating margins expected from all key divisions. We are also pleased to have completed the Zampalm transaction on 6 April, which demonstrates the Board's ongoing strategic focus on reducing Group debt.

“The outbreak of Foot and Mouth disease across the Chisamba and Chibombo districts is very disappointing and despite our stringent bio-security measures the outbreak has unfortunately spread to our Kalundu dairy herd, severely impacting milk yields. However, our milk processing operations and dairy product sales are continuing normally using milk from our other suppliers and reconstituted milk.

“Whilst the profitability of our Cold Chain Food Products business in H2-FY18 may be materially and adversely impacted by this outbreak, it is not currently possible to accurately quantify the financial consequences as the herd is still being treated. We will only be able to properly assess the financial implications of FMD once we see the level of recovery in milk yields post treatment. We are working very closely with the authorities to assist them in ensuring this outbreak is contained.

“We anticipate providing further guidance on the Group's expected full year profitability when we publish our Interim results in June.”

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Notes to the editors

Information on Zambeef

The Zambeef Group is one of the largest integrated cold chain food producers in Zambia, involved in the production, processing, distribution and retailing of beef, chicken, pork, milk, eggs, dairy products, fish, flour and stock feed. The Group also has large cereal row cropping operations (principally maize, soya beans and wheat), with approximately 7,971 hectares of row crops under irrigation, which are planted twice a year and a further 8,623 hectares of rain-fed/dry-land crops available for planting each year. Further information can be found on www.zambeefplc.com

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014 ("MAR").

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