



NATIONAL FLOUR MILLS LIMITED

AUDITED SUMMARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 | (expressed in thousands of Trinidad and Tobago dollars)

CHAIRMAN'S REVIEW



Nigel Romano

2019 was a watershed year—a time of challenge and transformation—for National Flour Mills Limited (NFM). The weak local economy and changing regional market dynamics, including the opening of Seprod's new mill in Jamaica, directly impacted revenue resulting in a \$19.6M decline (4.6%) from the prior year. Despite the decline in revenues, cost of sales was significantly higher than expected and, as a result, gross profit declined by 23% year-on-year.

Given the significant and unexpected reduction in gross profits, PricewaterhouseCoopers was engaged to investigate and identify root causes. This exercise revealed significant manufacturing cost increases due to systemic deficiencies in the use of, and accounting for raw materials. Cost of sales was impacted by increases in the prices of raw materials and packaging (\$5.1M); depreciation, spares, insurance and staff compensation (\$6.0M); and raw material consumption (\$2.8M). The bulk of these increases had to be absorbed given the decline in export sales and the freeze since 2008 on domestic price increases for our main flour products.

These reductions, and volatility of operating margins, were the catalyst driving our decision to flatten the organisation and upskill the workforce in our core operations to ensure alignment of structure, people and performance. In today's dynamic environment, organizational structures must enable innovation and speedy decision-making. Therefore, to increase agility and our ability to compete more effectively in the marketplace, we removed the General Manager layer and created the position of Chief Operating Officer with oversight over several functional areas. This is the first step in striving to create a culture of accountability, synergy and efficiency. Additionally, NFM has committed to embedding a growth mindset focused on continuous improvement—finding a better way each and every day. We will be upgrading our operating, information and accounting systems to improve analytics, and our ability to interrogate processes to identify and reduce waste, and increase efficiency. We will also continue to explore opportunities for revenue diversification into commercially viable agricultural based industries with strong export potential.

Despite the prudent management of overheads, which yielded a 3.9% decline in selling, distribution and administration expenses, lower revenues and increased cost of sales resulted in a 58% decrease in Operating Profit and a 70% decline in Profit after Tax compared to 2018. Due to the economic uncertainty associated with, and the unprecedented downturn triggered by the the COVID 19 Pandemic, your Directors believe that a cautious response is best and therefore we do not recommend payment of a final dividend for 2019.

While the future looks uncertain, exacerbated by the current pandemic, NFM will use this opportunity to build out a more robust infrastructure and develop a more agile and engaged work force to enable us to achieve reasonable returns for our shareholders while not placing additional burdens on our customers. Our local market has limited growth potential and NFM will be placing more emphasis on serving a regional clientele.

NFM can no longer rely on the sale of flour to make a profit and must now focus on diversifying our revenue base and developing forward and backward linkages. In addition, particular emphasis must be placed on innovating processes and incorporating technology to increase productivity and reconfigure the present day NFM into a modern, efficient manufacturing company.

In August 2019, we lost one of our board members, Mr. Sharaz Ahamad, the representative of the National Insurance Board of Trinidad and Tobago (NIBTT). His passing was a significant loss given his unique skills and competencies and his insightful contributions to the Board during his tenure. Ms. Joanne Salazar was nominated by the NIBTT to replace Sharaz. Ms. Salazar brings to the board extensive experience in Finance and Strategic Planning.

We also welcomed Mr. Jean Pierre Du Coudray in August 2019. As the Managing Director of an international manufacturing company, he brings a wealth of manufacturing and marketing expertise and experience to our board room deliberations.

In closing, I wish to thank my fellow directors for their unwavering support during a very turbulent year. There were many challenges during 2019 which tested the mettle of the Board and out of those challenges emerged a stronger team with a common vision for NFM. I would also like to thank our employees and their Trade Unions for their commitment to the company despite the significant changes, and our suppliers and customers for their continued business. The transformation continues in 2020 and I look forward to working with all stakeholders as we prepare NFM for sustainable success in a constantly changing world.


Nigel Romano
Chairman

INDEPENDENT AUDITOR'S REPORT



**Independent auditor's report on the summary consolidated financial statements
To the shareholders of National Flour Mills Limited**

pwc

Our opinion

In our opinion, the accompanying summary consolidated financial statements of National Flour Mills Limited (the Company), are consistent, in all material respects, with the audited consolidated financial statements, on the basis described in note 2.

The summary consolidated financial statements

The Company's summary consolidated financial statements derived from the audited consolidated financial statements for the year ended 31 December 2019 comprise:

- the summary consolidated statement of financial position as at 31 December 2019;
- the summary consolidated statement of comprehensive income for the year then ended;
- the summary consolidated statement of changes in equity for the year then ended;
- the summary consolidated statement of cash flows for the year then ended; and
- the related notes to the summary consolidated financial statements.

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the consolidated summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 4 May 2020. That report also includes:

- The communication of other key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the audited consolidated financial statements of the current period.

Management's responsibility for the summary consolidated financial statements

Management is responsible for the preparation of the summary consolidated financial statements on the basis described in note 2.

Auditor's responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), 'Engagements to Report on Summary Financial Statements'.

PricewaterhouseCoopers

Port of Spain
Trinidad, West Indies
4 May 2020

NOTES TO THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

1 Incorporation and principal activities

National Flour Mills Limited ("the Company") is incorporated in the Republic of Trinidad and Tobago, and was continued under the provisions of the Companies Act, 1995 on 14 April 1998.

The Company and its subsidiary (together, the Group) principal activities are the production and distribution of food products and animal and poultry feeds. The Group's major shareholder is National Enterprises Limited owning 51% of the issued share capital. The Group's registered office is 27-29 Wrightson Road, Port of Spain. The ultimate shareholder is the Government of the Republic of Trinidad and Tobago.

2 Basis of Preparation

The summary consolidated financial statements have been prepared by presenting the Consolidated Statement of Financial Position, Consolidated Statements of Comprehensive Income, Changes in Equity and Cash Flows exactly as presented in the full set of consolidated financial statements which were prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2019. The consolidated financial statements have been prepared under the historical cost convention, except for investments at fair value through other comprehensive income and defined benefit plans where plan assets are measured at fair value. The summary consolidated financial Statements do not include the accounting policies and the notes that are contained in the full audited consolidated financial statements. The accounting policies have been applied consistently to all the years presented, except for the adoption of new International Financial Reporting Standards in the current year.

Since the outbreak of COVID-19 in the first quarter of 2020, global financial markets have experienced, and may continue to experience significant volatility and there are significant consequences for the global and local economies from travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The extent and duration of the impact of COVID-19 on the global and local economies and the sectors in which the Group and its customers and suppliers operate is uncertain at this time, but it has the potential to adversely affect our business. As of the date of management's approval of the financial statements, management was not aware of any significant adverse effects on the financial statements for the year ended 31 December 2019 as a result of COVID-19. Management will continue to monitor the situation and the impact on the Group.



NATIONAL FLOUR MILLS LIMITED

AUDITED SUMMARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 | (expressed in thousands of Trinidad and Tobago dollars)

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	2019 \$ Consolidated	2018 \$ Restated
Assets		
<i>Non-current assets</i>		
Property, plant and equipment	173,714	182,784
Intangible assets	5,773	6,137
Right of use asset	6,920	--
Investments at fair value through OCI	1,248	1,758
Retirement benefit asset	23,178	5,644
Deferred taxation	6,934	6,369
	<u>217,767</u>	<u>202,692</u>
<i>Current assets</i>		
Accounts receivable and prepayments	74,149	69,987
Amount due from the Government of the Republic of Trinidad and Tobago (GORTT)	18,274	17,935
Inventories	65,296	76,599
Restricted deposit	16,542	31,981
Tax recoverable	9,001	6,775
Cash and cash equivalents	43,578	44,285
	<u>226,840</u>	<u>247,562</u>
Total assets	<u>444,607</u>	<u>450,254</u>
Liabilities and equity		
<i>Non-current liabilities</i>		
Deferred taxation	47,486	44,234
Medical and life insurance plan	21,833	19,532
Lease liability	5,821	--
Borrowings	--	15,826
	<u>75,140</u>	<u>79,592</u>
<i>Current liabilities</i>		
Accounts payable and accruals	32,545	35,048
Amount due to the Government of the Republic of Trinidad and Tobago (GORTT)	17,321	15,968
Lease liability	1,038	--
Borrowings	64,645	72,782
	<u>115,549</u>	<u>123,798</u>
Total liabilities	<u>190,689</u>	<u>203,390</u>
<i>Shareholders' equity</i>		
Stated capital	120,200	120,200
Treasury shares	(3,125)	(3,175)
Retained earnings	138,165	130,651
Other reserves	(1,322)	(812)
	<u>253,918</u>	<u>246,864</u>
Total liabilities and equity	<u>444,607</u>	<u>450,254</u>

On 30 April, 2020, the Board of Directors of National Flour Mills Limited authorised these summary consolidated financial statements for issue.

Director

Director

SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated capital \$	Treasury shares \$	Other reserves \$	Retained earnings \$	Total \$
Balance as at 1 January 2018	120,200	(2,633)	(403)	135,568	252,732
Adjustment to opening retained earnings for adoption of IFRS 9	--	--	--	(1,595)	(1,595)
	<u>120,200</u>	<u>(2,633)</u>	<u>(403)</u>	<u>133,973</u>	<u>251,137</u>
Total comprehensive income:					
Restated profit for the year	--	--	--	20,595	20,595
Loss on investment	--	--	(409)	--	(409)
Actuarial loss for the retirement benefit asset and medical and life insurance plan	--	--	--	(11,897)	(11,897)
Increase in treasury shares	--	(542)	--	--	(542)
Transactions with owners of the Company:					
Dividends declared	--	--	--	(12,020)	(12,020)
Balance as at 31 December 2018 - restated	<u>120,200</u>	<u>(3,175)</u>	<u>(812)</u>	<u>130,651</u>	<u>246,864</u>
Year ended 31 December 2019					
Balance as at 31 December 2018 restated	120,200	(3,175)	(812)	130,651	246,864
Total comprehensive income					
Profit for the year	--	--	--	6,133	6,133
Loss on investment	--	--	(510)	--	(510)
Actuarial gain for the retirement benefit asset and medical and life insurance plan	--	--	--	10,155	10,155
Other movements	--	--	--	(360)	(360)
Movement in Treasury Shares	--	50	--	--	50
Transactions with owners of the Group:					
Dividends declared	--	--	--	(8,414)	(8,414)
Balance as at 31 December 2019	<u>120,200</u>	<u>(3,125)</u>	<u>(1,322)</u>	<u>138,165</u>	<u>253,918</u>

SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2019 \$	2018 \$ Restated
Revenue	412,476	432,119
Cost of sales	(321,112)	(314,122)
Gross profit	91,364	117,997
Expenses		
Selling and distribution expenses	(38,657)	(40,226)
Administration expenses	(47,127)	(49,587)
Other operating income	9,214	7,362
Operating profit	14,794	35,546
Net finance cost	(4,731)	(3,810)
Profit before taxation	10,063	31,736
Taxation charge	(3,930)	(11,141)
Profit for the year	6,133	20,595
Other comprehensive income		
<i>Items that would not be reclassified to profit or loss</i>		
Re-measurement of retirement benefit asset	16,363	(15,856)
Re-measurement of medical and life insurance plan	(1,856)	(613)
Loss on investment at fair value through OCI	(510)	(409)
Deferred taxation	(4,352)	4,572
Other comprehensive loss net of tax	9,645	(12,306)
Total comprehensive income for the year	<u>15,778</u>	<u>8,289</u>
Earnings per share		
Basic earnings per share	5¢	17¢
Diluted earnings per share	5¢	17¢

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2019 \$	2018 \$ Restated
Cash flows from operating activities		
Profit before taxation	10,063	31,736
Adjustments for:		
Depreciation	15,472	14,516
Amortisation	2,494	601
Interest expense	4,780	5,273
Retirement benefit and medical plan expense	7,131	6,359
Gain on disposal of lease liability	--	(411)
Lease interest expense	291	--
Interest income	(491)	(732)
Capitalised borrowings	658	578
Remeasurement of treasury shares	--	(542)
Discounting of receivables	637	--
Dividend income	(481)	(678)
Gain or loss on foreign exchange	(322)	(53)
Increase in provision for doubtful accounts	2,798	3,706
Operating profit before working capital changes	43,030	60,353
Changes in working capital:		
Increase in accounts receivable and prepayments and restricted deposit	(7,387)	(3,351)
Decrease/(increase) in inventories	11,303	(14,974)
Decrease in accounts payable and accruals	(2,670)	(9,080)
Increase in amounts due to/from GORTT	804	722
Cash generated from operating activities	45,080	33,670
Interest paid	(4,838)	(6,278)
Taxes paid	(7,823)	(11,911)
Net cash generated from operating activities	<u>32,419</u>	<u>15,481</u>
Cash flows from investing activities		
Restricted deposit	15,439	44,620
Disposal of asset	85	--
Purchase of property, plant and equipment	(6,961)	(18,823)
Dividend income	481	678
Retirement benefit asset contributions paid	(6,609)	(5,367)
Interest received on loans	491	732
Medical and Life Insurance Plan contributions paid	(1,248)	(779)
Purchase of intangible assets	(1,369)	(2,373)
Net cash generated from investing activities	<u>309</u>	<u>18,688</u>
Cash flows from financing activities		
Borrowings drawn	--	37,455
Borrowings repayment	(24,513)	(68,440)
Dividends paid	(8,414)	(13,879)
Lease interest paid	(217)	--
Lease liability repaid	(291)	(472)
Net cash used in financing activities	<u>(33,435)</u>	<u>(45,336)</u>
Net decrease in cash and cash equivalents	(707)	(11,167)
Cash and cash equivalents at the beginning of the year	<u>44,285</u>	<u>55,452</u>
Cash and cash equivalents at the end of the year	<u>43,578</u>	<u>44,285</u>