

TRADING UPDATE

THIRD QUARTER (JANUARY - MARCH 2024)

National Foods hereby issues the following trading update for the quarter ended 31 March 2024.

Economic Environment and Trading Performance

1. The quarter began with a number of major fiscal policy changes being implemented by the authorities. This saw the Valued Added Tax ("VAT") status of most basic commodities being changed from "zero-rated" to "exempt".
2. This change in legislation impacted maize meal, flour, salt and stockfeeds. The effect of these changes is that whilst output VAT is not charged on selling the product, the input VAT incurred in the production of these goods can no longer be claimed and has therefore become a business cost.
3. The financial impact of this has been to increase costs within the business by around 3%; this is significant, especially given the typically low operating margins of commodity businesses. Management continues to work on solutions that will assist in shielding the consumer from the impact of this policy change through cost reduction and procurement cost savings and efficiencies.
4. In addition to the above, the VAT status of rice was changed from "exempt" to "standard-rated", increasing its cost by 15% to the consumer. This was an unfortunate policy change as rice is a key basic food item for many consumers.
5. The above measures impacted volume momentum in some categories, notably Flour and Rice during the quarter under review.
6. The recent summer season has seen exceptionally poor rainfall across the sub region. Careful planning is underway to secure the coming year's raw materials. Fortunately, although South Africa had poor rains it still generated a moderate grain surplus which should largely cover the regional deficit.
7. We remain confident of our ability to continue to supply the market in the year ahead.
8. Volumes for the third quarter at 145,000 tons were 5% above last year, with strong performances in Maize and Snacks offsetting the losses in Flour and Rice. Revenues for the quarter at USD 89 million, were flat against last year.
9. On a year-to-date basis, volumes at 430,000 tons were 3.9% above the comparative period. Revenue for the 9-month period amounted to USD 261 million, 2.2% ahead of the same period last year.
10. The volume performance by category is summarised in the table below:

Category	Q3	Q3 YTD
Flour	(8%)	1%
Stockfeeds	2%	10%
Maize	43%	11%
Downpacked	(40%)	(23%)
Snacks	49%	38%
CCB	12%	9%
Group	5.0%	3.9%

11. Flour volumes were impacted by the price of bread which momentarily breached the key USD 1 per loaf price point following the change in VAT status. Following the decision by bakers to revert to the original price point and to ingest the additional cost incurred, thereby considerably reducing margins, volumes have recovered somewhat.
12. Momentum in the Stockfeed category slowed following the imposition of VAT on meat products.
13. Maize volumes were firm, following last year's poor harvest.
14. Downpacked volumes were impacted by the imposition of VAT on rice as well as the continued high global raw material prices with India's export ban remaining in place.
15. Snacks and CCB (Cereal) volumes showed encouraging momentum as the capacity enhancements were commissioned.

Update on New Investments

1. The various major capital projects being undertaken by the business are now reaching completion:
 - As previously advised, the new Flour mill in Bulawayo is performing to expectation and the efficiency gains from this investment have been encouraging.
 - The new Pasta plant which has been installed in Harare, was commissioned in February 2024. This is the first large scale pasta plant in the country and deliveries of product to the market have commenced.
 - The new biscuit line is expected to be commissioned in June 2024.

Outlook

1. The changes made to the VAT status of many of the operation's products during the quarter will make it increasingly challenging for the formal sector to compete against the informal sector, and grey imports.
2. Post the quarter-end, IMTT has been increased from 1% to 2% on USD transactions, placing further pressure on the value chain.
3. We are hopeful that the authorities will deploy some policy consistency in the period ahead to enable local players in the formal sector producing basic commodities to focus on supplying the consumer consistently, in what will be a challenging period ahead.
4. The Group's focus will be to ensure adequate stocks of competitively priced basic goods, for the consumer across the country over the next 12 months.
5. In the period ahead, considerable focus is also being placed on ensuring that the new categories that have been added to the Group's portfolio are successfully launched, and achieve the targeted returns on investment.

By order of the Board

NATIONAL FOODS HOLDINGS LIMITED



LC Howes
Company Secretary
Harare
14th May 2024