

TRADING UPDATE

FOR THE QUARTER ENDED SEPTEMBER 30TH 2022

Economic Environment And Trading Performance

- The quarter saw a marked stabilisation in the economy, as the recently introduced economic measures resulted in a significant decline in inflation.
- The Group welcomes the recent policy measures taken by Government which have resulted in economic stability. This has allowed management to focus on the core business rather than responding to frequent exogenous economic changes. This is beneficial to business productivity and ultimately the consumer.
- Notwithstanding the welcome economic stability, the constrained liquidity negatively impacted volumes during the quarter. In addition to this, a few pricing distortions remain and these have resulted in depressed trade in certain channels, notably the formal trade.
- From a trading perspective the quarter was an exceptionally challenging one for the Group. Volumes for the quarter at 118,000 tons declined by 18% compared to last year. The decline was largely in 3 key categories:
 - Flour, where volumes declined by 22%
 - Maize, which registered a volume decline of 26%
 - Stockfeeds, where volumes declined by 13%
- The decline in flour volume was caused by affordability, with bread prices reaching as high as US\$ 1.15 per loaf during the period, driven by significantly higher international wheat prices following the outbreak of war in Ukraine. In recent months, wheat prices have softened somewhat with the resumption of grain shipments from the Black Sea region. This has seen bread prices reduce to around the US\$ 1 per loaf mark, with a corresponding increase in demand, albeit not to levels seen last year when bread was cheaper.
- The current local wheat harvest is underway, and prospects for the crop size are very encouraging. National Foods expects to source a significant portion of its wheat needs through the PHI/A-Growth contract farming program which has made a meaningful contribution to the harvest, with an estimated harvest of 78,000 MT.
- The continued improvements in local cereal production have substantially reduced import demand for all raw materials. This is positive for the economy, with reduced foreign currency demand, and increased development of both the farming sector and associated supporting industries.
- Performance of the formal trade during the quarter was disappointing, mainly due to the exchange rates offered in the formal trade, which were not attractive to consumers. This saw a significant shift by the market to the informal trade. It is hoped that these anomalies can be addressed in the near future such that the formal and informal markets can compete on a level playing field.
- These anomalies largely resulted in the declines in the Maize and Stockfeed categories. In addition, Maize volumes were impacted by competition from imported maize meal, notably in the Southern Region, while beef feed volumes were impacted by depressed demand for beef feed.
- Stockfeed volumes were further impacted by plant shut downs required to install plant automation capabilities. This work has now been completed and we are hopeful of a recovery in Stockfeed volumes in the coming quarter.

11. The performance by category is summarised in the table below:

Category	Q1 versus SPLY
Flour	-22%
Stockfeeds	-13%
Maize	-26%
Downpacked	+8%
Snacks	+24%
CCB	+55%
Group	-18%

12. There were positive performances in the Downpacked, Snacks and CCB (Cereals) units. The Downpacked unit, which packs rice and salt and the Snacks categories are largely traded in the informal sector and were less impacted by the challenges in the formal sector.

Update on New Investments

- As advised previously, the Group has a substantial pipeline of new projects, with a projected investment value of US\$ 30 million.
- These projects will see National Foods entering a number of new and exciting categories, whilst reducing imports of manufactured food products into the country:
 - The Harare Breakfast cereal plant is currently being commissioned and a range of breakfast cereals will be released to the market in November.
 - Installation of the new state of the art Flour mill in Bulawayo has been delayed by 3 months and is now expected to be commissioned in March 2023.
 - Work on the new pasta and biscuit plants has begun at Stirling Road, Harare. It is expected that these plants will be commissioned late in 2023.
 - Finally, the Board has recently approved the upgrade and expansion of the Aspindale rice packing facility, and we expect that this be completed by the end of 2023.

Outlook

- Whilst this has been a challenging quarter for the Group, we remain optimistic on the overall trajectory of the economy and the future of the country.
- Our view is that the current period of adjustment following the necessary interventions will soon pass, and volumes will then recover.
- Management's focus is on recovering volumes in the major categories, as well as optimising operational expenditure and working capital models for the current circumstances.
- Finally, the recent investments will add an exciting new dimension to National Foods' portfolio, and we are looking forward to taking these products to the market.

By order of the Board

NATIONAL FOODS HOLDINGS LIMITED

Leigh Caroline Howes



Group Legal Counsel and
Company Secretary

November 15th 2022