INNSCOR AFRICA LIMITED

TRADING UPDATE- FIRST QUARTER (F2019)

NATIONAL FOODS

- Consumer demand remained robust during the quarter, continuing the trend seen at the end of the previous financial year. Volume growth of 26% was driven by:

    - Maize, where volumes increased by 55% over the comparative period as the maize harvest was lower than last season, and consumers also elected to sell their home-grown maize to the GMB.
    - The Stockfeed division, where volumes grew by 44% over the same period, largely on the back of the recovery in the poultry market following the outbreak of Avian Influenza last year.
    - Snacks and Treats, where volumes increased by 48% as our Snack and Iris biscuit brands continued to make solid progress in the market.

- The Flour unit continued to operate at maximum capacity during the period.

- The company continues to work closely with the RBZ to manage funding for its wheat import requirements.

- Efforts to develop our local raw material pipeline are on-going through the provision of support to local farmers. This summer our contract farming schemes will amount to 9,000 hectares of maize, soya beans, sugar beans and popcorn.

- Product supply has been largely consistent to the market in most categories although supplies of some products which use imported raw materials such as cooking oil and salt have, at times, been impacted by foreign currency availability.

BAKERIES

- As expected, demand remained extremely firm in the Bakery operations in the face of steep inflation in the selling price of competing substitutes and a controlled loaf price. Loaf volumes increased by around 16% over the comparative period.

- An upgrade on two lines in Harare is currently underway which will result in a small capacity increase, enhanced manufacturing efficiencies and improved product quality. This project is due for completion during the third quarter of F2019.

- With regards to distribution, additional freighter vehicles are now in place and a further 45 bread distribution vehicles are currently being delivered; these acquisitions will reduce out-sourcing requirements, improve service delivery and lower distribution costs.

- As a price-controlled product, the business is reliant on currency support from the Central Bank not only indirectly for flour, but also other raw material inputs and plant maintenance. We continue to work with the authorities to manage the raw material pipeline and loaf pricing in this regard.

COLCOM

- Total volumes in the pork operation were 28% ahead of those recorded in the comparative period, with good performances across the core fresh, processed and pie categories.

- The pig expansion project was completed during the latter part of the quarter under review and has resulted in a 25% increase in weekly pig numbers.

- Notwithstanding the outbreak of Foot and Mouth Disease in the country; volumes at AMP, the operation's beef processing and down-packing unit, were up 7% on the comparative period, this was largely due to the positive contribution of the newly established Zimnyama cattle buying and slaughter operation.

IRVINE'S

- The recovery programme at Irvine's has been continuing smoothly.

- The full re-stocking of the breeder flocks in both the broiler and layer categories is now largely complete.

- Local production of Hatching Eggs continues to increase but imports will still be required up to the end of Quarter 3 of F2019, albeit on a gradually reducing basis, and until local production is fully restored. We continue to work with the relevant authorities as regards currency support and duty exemptions in order to ensure cost and pricing efficiencies are achieved.

- The contract grower base has recently been expanded, and this will allow for a further increase in frozen chicken production.

- Table Egg production continues to recover, and should be fully restored during the third quarter of F2019.

NATPAK

- Natpak continues to deliver strong performance and demand remains firm across all categories, with total volumes increasing by 16% over the comparative period.

- The migration of the Sacks production line to a new site will be completed during December and will enable further growth in this category through a combination of new plant and upgrades to existing plant.

- The original Natpak site will house the growing Flexibles operation, as well as the newly established Rigids operation which will focus on the manufacture of pre-forms and closures for the bottling market.

- Commissioning of the corrugated line was completed in October, and full commercial production in this category has now commenced.

PRODAIRY

- The Prodairy operation is in its infancy and produced pleasing results for the period under review, with volumes as targeted.

- Raw milk in-take continued to increase, with a positive contribution from our own production facility, Mafuro Farming, which is smart partnership with Government utilising the Grasslands Research Station in Marondera.

- Dairy blend volumes remained firm both in bottle format and also the popular Tetrapack offering.

- Maheu production has also recently commenced, and will also be offered in bottle format and Tetrapack, a first for this product in Zimbabwe.

- Investments in additional complimentary dairy products continue to be evaluated.

PROFEEDS (ASSOCIATE)

- At Profeeds, demand was firm with volumes being 23% above those recorded in the comparative period, on the back of a recovery in day old chick supply.

- The upgrade of the popular Profeeds retail network continues, with six stores having been completed so far and a forward target of three shops per month.

PROBRANDS (ASSOCIATE)

- Volumes at Probrands were 20% above those recorded in the comparative period, with strong performances in rice, down-packed product and powders.

- Improved volumes gave rise to critical mass being reached and consequent cost efficiencies.

- Following the investment made in Probottlers over the past year to increase capacity, this business posted a strong performance with total volumes almost double those recorded in the comparative period.

GROUP SUMMARY

- Whilst volumes were generally firm across the Group during the quarter, gross profit percentages remained under some pressure with cost increases in both the local and imported bills of materials.

- Operating expenditure was well controlled during the quarter, and the operating expense to gross margin ratio continued to reduce, allowing for improved operating leverage.

- Substantial inflation in operating costs has taken place following the close of the first quarter and thus remains a key focus area for our management teams to ensure competitively priced goods in a highly volatile market.

- As with most other businesses, currency challenges exist across the portfolio, and we look forward to understanding the mechanisms that will be put in place by the authorities to ensure that the market can trade adequately, and that uninterrupted local production can continue.